

2002 Farm Bill--Options and Implications

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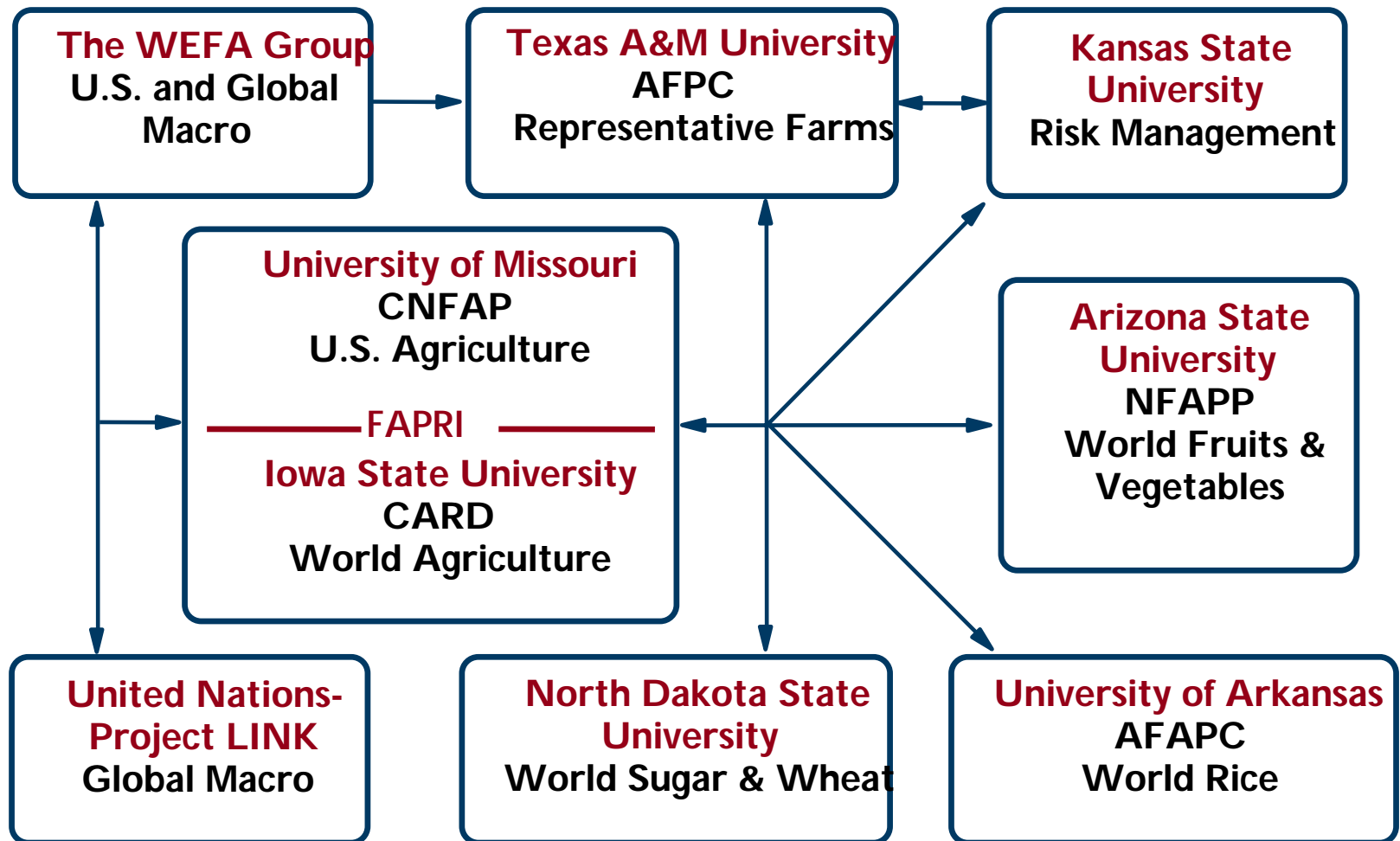
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Material to Cover

- Review of Outlook
- Options Considered for Modifying the 2002 Farm Bill
- Comparison of House and Senate Bills
- Implication for Representative Farms

FAPRI-AFPC - Consortium



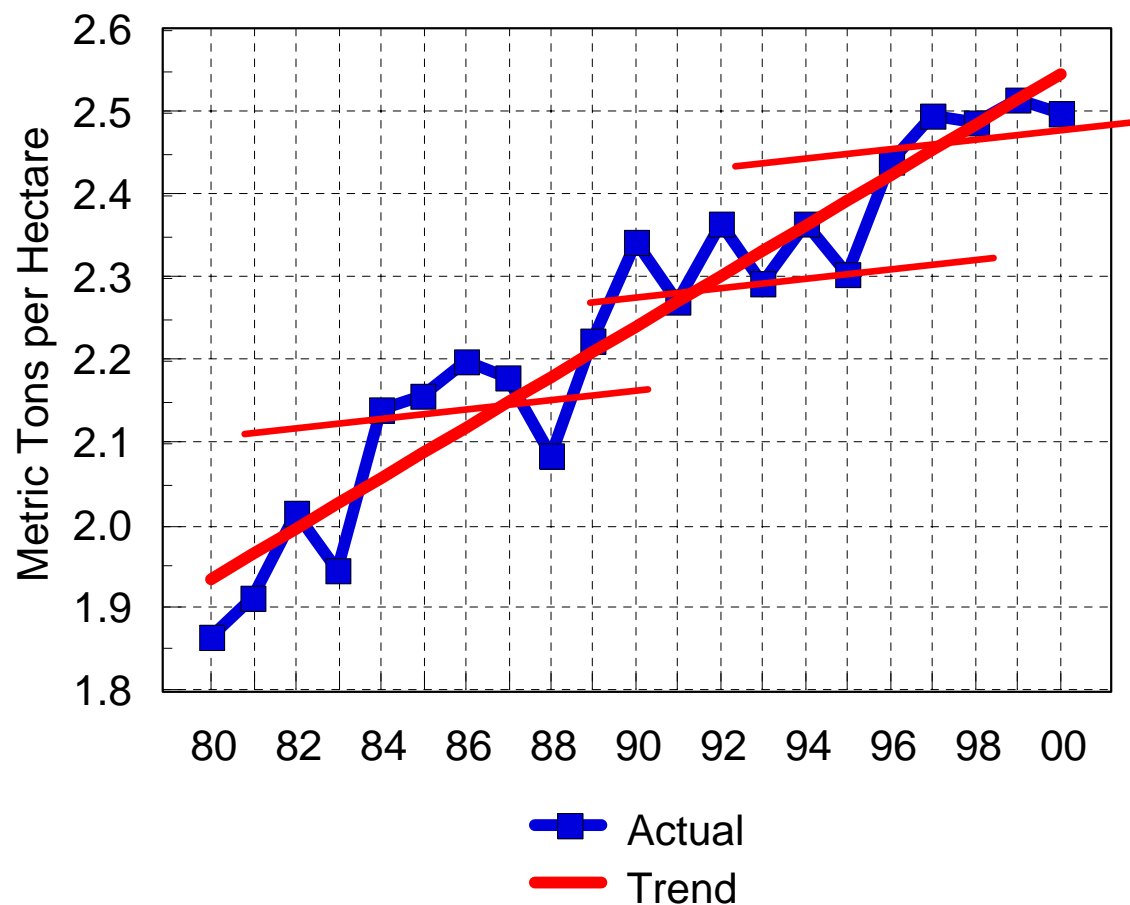
FAPRI-AFPC Consortium

- A consortium of 7 universities with linkage to two large global economic forecasting organizations—the WEFA Group in Philadelphia and Project LINK with the United Nations
- 60 individuals at all the universities working on the global, farm level, and environmental systems
- Material presented is based on work done by the consortium
- A large portion of the FAPRI financing is directly appropriated by Congress and most of our analysis is done at the direct request of the U.S. House and Senate Committees on Agriculture.

World Grain & Oilseed Yields

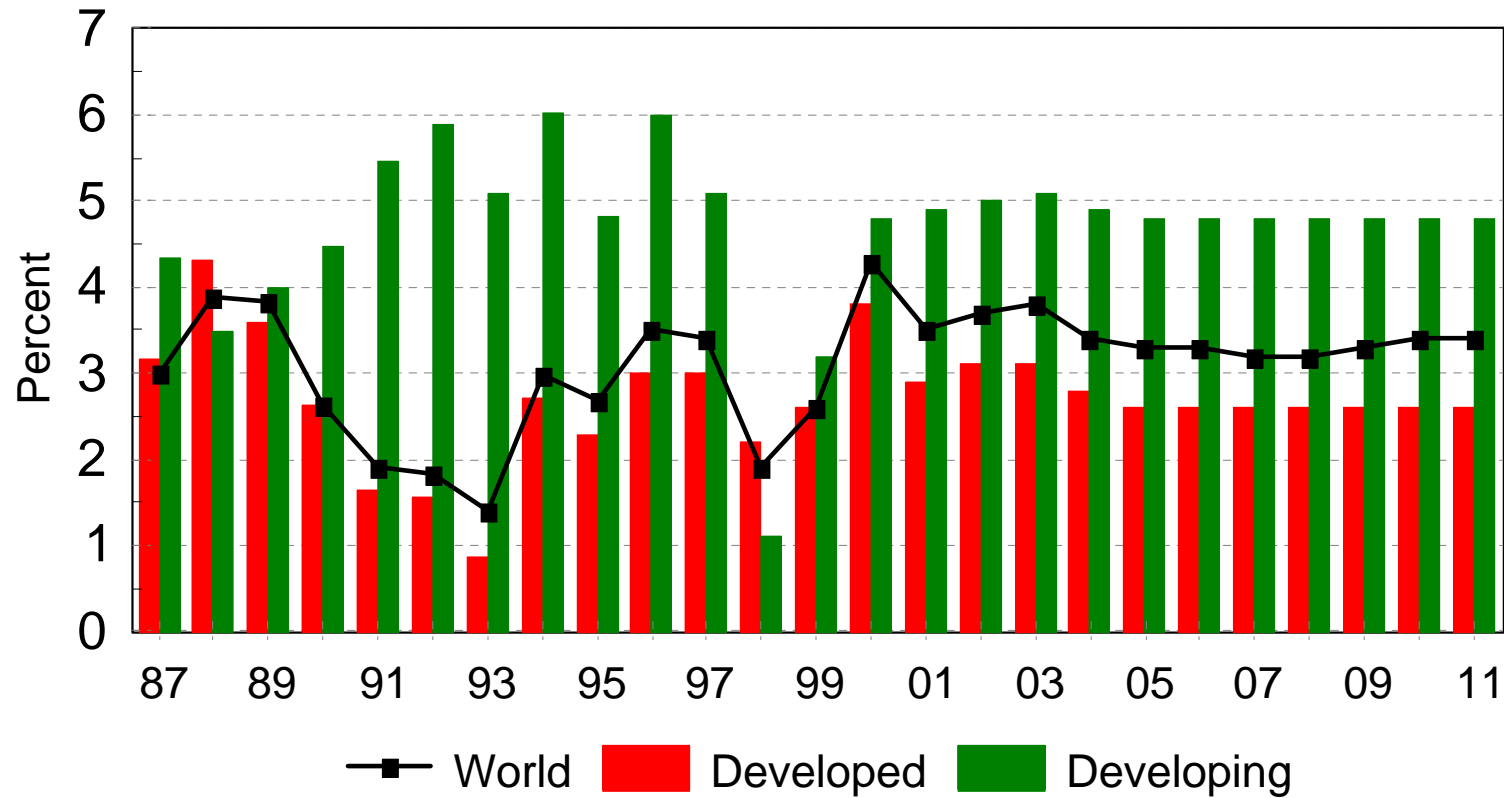
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- On a global basis, yields remain close to trend for fifth consecutive year.
- Very similar to the 1984-87 period.
- If estimates are realized, supply pressures will continue to weigh on the market.

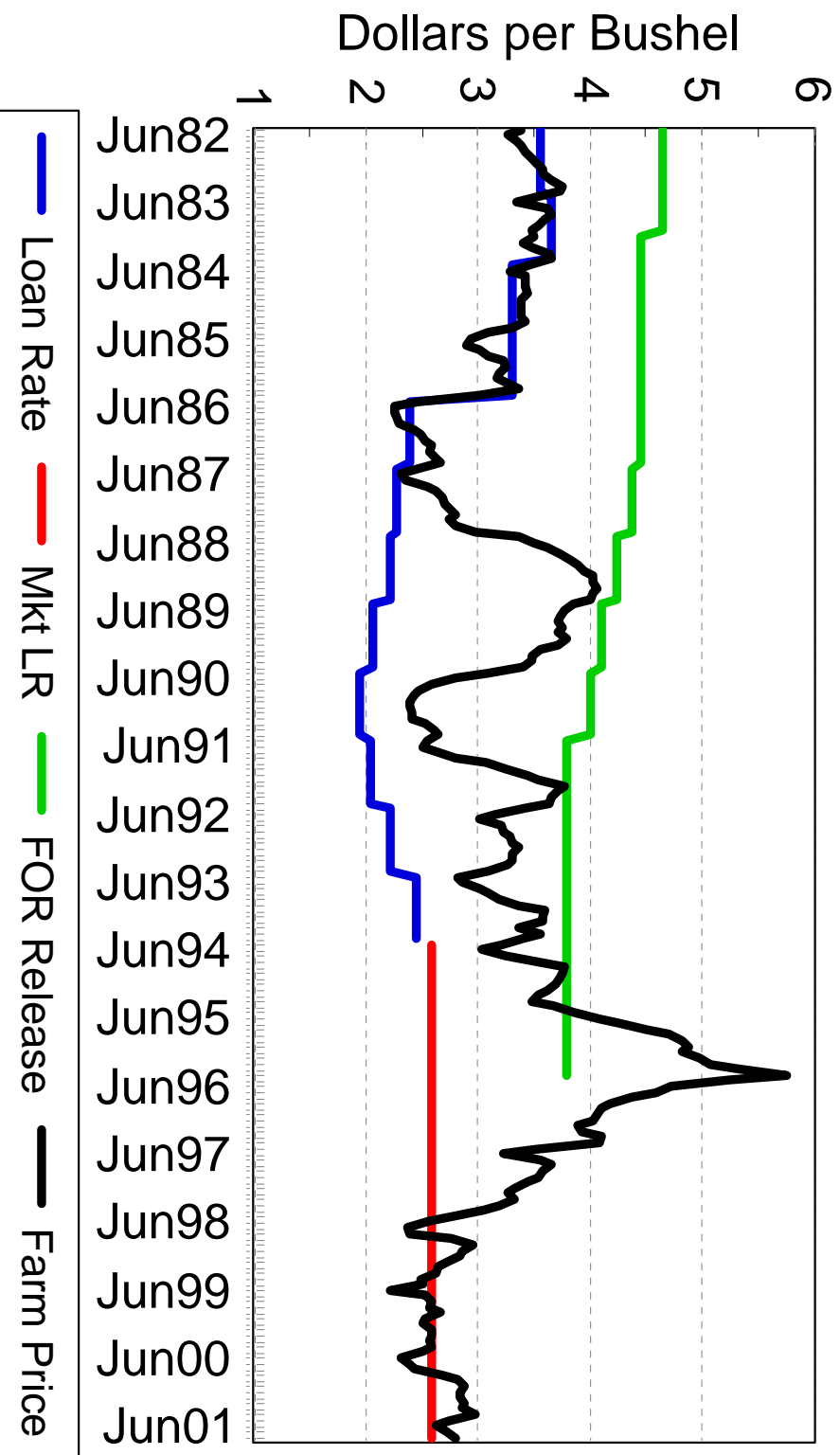


Real GDP growth

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U.S. Monthly Wheat Price



US Commodity Prices

	1986-90	1991-95	1996-00	Baseline 2002-06	Baseline 2007-11
Wheat, per Bu.	\$3.01	\$3.50	\$3.10	\$3.03	\$3.36
Corn, per Bu.	\$2.12	\$2.49	\$2.15	\$2.19	\$2.36
Soybean, per Bu.	\$5.90	\$5.95	\$5.63	\$4.49	\$5.37
Cotton, per Lb.	\$0.60	\$0.64	\$0.65	\$0.44	\$0.57
Rice, per Cwt.	\$6.39	\$7.48	\$8.09	\$4.75	\$5.49
Sorghum, per Bu.	\$1.91	\$2.35	\$1.91	\$2.07	\$2.21
NE Steers, per Cwt.	\$69.83	\$72.20	\$65.61	\$75.73	\$68.69
Hogs, per Cwt.	\$51.97	\$46.29	\$44.85	\$43.77	\$42.43
All milk, per Cwt.	\$12.91	\$12.80	\$14.06	\$13.27	\$13.36

Farm Group Proposals

<u>Group</u>	Keep or raise <u>AMTA</u>	Keep or raise <u>loans</u>	<u>Counter-</u> <u>cyclical</u>	<u>Green</u> <u>payments</u>	<u>Manage</u> <u>supply</u>
Corn	Y	N	Y	--	N
Barley	Y+	Y+	Y	Y	--
Cotton	Y	Y	Y	--	N
Rice	Y	Y	Y	Y	N
Wheat	Y+	Y+	Y	Y	N
Soybeans	Y+	Y	Y	Y	N
AFBF	Y	Y+	Y	Y	N
NFU	N	Y+	N	Y	Y

Note: Y=yes; N=no; +=increase; cotton has an option to raise AMTA and loan rate cap

2000 Analysis Requested for Safety Net

- 1) Revenue-based--SIP
- 2) Loan rate increases
- 3) Direct payment--double AMTA
- 4) Flex-Fallow--set aside land

2001 Analysis Requested by Leadership in both Senate and House Ag. Committees

Probing to find adequate support levels

- 5) Varying levels of insurance support
set aside and storage programs
- 6) Target Price, current loans, \$30 Billion
- 7) Target Price, current loans, \$40 Billion
- 8) Target Price, modify soybeans, \$30 Billion

2001 Analysis Requested by Leadership in both Senate and House Ag. Committees

- 9) Target Price, modify soybeans, \$40 Billion
- 10) Revenue Support, current loans, \$30 Billion
- 11) Revenue Support, current loans, 40 Billion
- 12) Revenue Support, modify soybeans, \$30 Billion
- 14) Revenue Support, modify soybeans, \$40 Billion

2001 Analysis Requested by Leadership in both Senate and House Ag. Committees

15) Mid-July--draft farm bill proposal

16) Late-July--H.R. 2646

H.R. 2646 Provisions

- Continue marketing loan program and extend to peanuts
- Continue AMTA program and extend to soybeans and peanuts
- Create Counter Cyclical Payment (CCP) for all “program” crops

H.R. 2646 Permits Base Re-Alignment

- Base acres for fixed payments and CCPs
 - Current base or
 - Average planted acres 1998-2001
- Farm Program Yields remain frozen at 1985 levels
- Soybeans receive FPY based on comparable AMTA yields in area – historical yields 1976-1984
- Peanuts receive FPY based on 1998-2001

Fixed & Counter-cyclical Payments (CCPs)

- $CCPs = \text{Target Price} - \text{Fixed Payment}$
– (higher of farm price or loan rate)
- CCPs and fixed payments are paid on program yield on 85% of base acres.
- Current flexibility rules apply. **Payments are not tied to the current production decision.**

H.R. 2646 Provisions

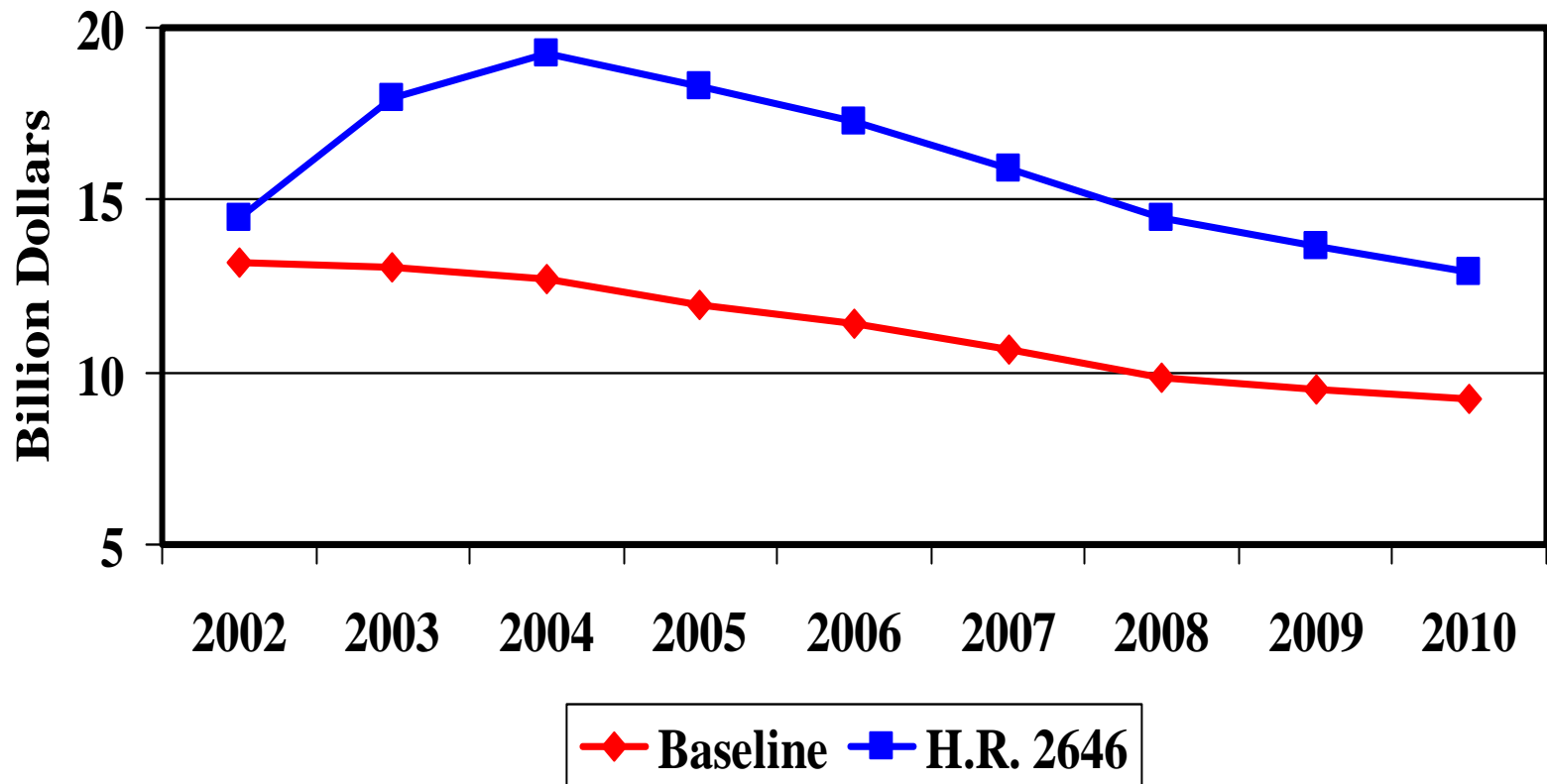
	Maximum Loan Rates		Fixed Payments	Target Prices
	1996 FAIR Act	H.R. 2646		
Wheat/bu.	\$2.58	\$2.58	\$0.53	\$4.04
Corn/bu.	\$1.89	\$1.89	\$0.30	\$2.78
Sorghum/bu.	Relative market prices w/corn	\$1.89	\$0.36	\$2.64
Cotton/lb.	\$0.5192	\$0.5192	\$0.0667	\$0.736
Rice/cwt	\$6.50	\$6.50	\$2.35	\$10.82
Soybeans/bu	\$5.26	\$4.92	\$0.42	\$5.86
Minor Oilseeds/cwt	\$9.30	\$8.70	\$0.74	\$10.36

Expected per-unit gross returns for the 2003 crop, H.R. 2646

- Given FAPRI's projected prices, table shows a comparison of expected total revenue from the market and gov't payments per unit of production

	FAIR Act	H.R. 2646	Change	Percent Change
Corn per bu	\$2.41	\$2.64	\$0.24	10%
Beans per bu	\$5.58	\$5.81	\$0.23	4%
Cotton per lb	\$0.628	\$0.719	\$0.091	15%
Rice per cwt	\$10.48	\$11.53	\$1.05	10%
Wheat per bu	\$3.43	\$3.82	\$0.39	11%

FAPRI's Projected Net CCC Outlays



What does S. 1731 Do?

- Fixed payments reduced over time (House held them constant)
- Marketing Loan Rates higher than H.R. 2646
- Counter-cyclical payments
 - No CCPs in 2002 or 2003
 - Would make CCPs for 2004-2006 if prices are lower than “income protection price”
- Farmers can update both base area and payment yields

S. 1731 Provisions

- Farmers have option of updating payment base to
 - 1998-2001 average planted area
 - 1998-2001 average yield, dropping low
- Good news: for most producers, more bushels/pounds eligible for payments
- Bad news: Lower payment rates per bushel

Comparison of Loan Rates

	FAIR Act	H.R. 2646	S. 1731	S. 1731
	Maximum	Maximum	Fixed Levels	% Increase Over 2646
Wheat (\$/bu)	2.58	2.58	3.00	16.3
Corn (\$/bu)	1.89	1.89	2.08	10.1
Sorghum (\$/bu)	Relative market prices with corn	1.89	2.08	10.1
Cotton (\$/lb)	.5192	.5192	.55	5.9
Rice (\$/cwt)	6.50	6.50	6.85	5.4
Soybeans (\$/bu)	5.26	4.92	5.20	5.7
Peanuts (\$/ton)	610	350	400	14.3

Comparison of Decoupled Payment Rates

	H.R. 2646	S. 1731 02/03	S. 1731 04/05	S. 1731 06	S. 1731 5 yr avg	S. 1731 10 yr avg
Wheat (\$/bu)	.53 (.451)	.45	.225	.113	.293	.203
Corn (\$/bu)	.30 (.255)	.27	.135	.068	.176	.122
Sorghum (\$/bu)	.36 (.306)	.31/.27	.135	.068	.184	.126
Cotton (\$/lb)	.0667 (.057)	.13	.065	.0325	.085	.059
Rice (\$/cwt)	2.35 (1.998)	2.45	1.225	.6125	1.593	1.103
Soybeans (\$/bu)	.42 (.357)	.55	.275	.138	.358	.248
Peanuts (\$/ton)	36 30.6	36 30.6	36 30.6	36 30.6	30.6	30.6

Comparison of Target/Income Protection Prices for Counter-cyclical Payments

	H.R. 2646	S. 1731	Effective 2646 over 10 yrs
Wheat	4.04/bu	3.45/bu	3.82/bu
Corn	2.78/bu	2.35/bu	2.65/bu
Sorghum	2.64/bu	2.35/bu	2.53/bu
Cotton	.736/lb	0.68/lb	.70/lb
Rice	10.82/cwt	9.30/cwt	10.17/cwt
Soybeans	5.86/bu	5.75/bu	5.72/bu
Peanuts	\$480/ton	\$520/ton	460.5/502

Expected gross returns for the 2003 crop, H.R. 2646 vs S. 1731

- Given FAPRI's projected prices, table shows a comparison of expected total revenue from the market and gov't payments per unit of production

	H.R. 2646	S. 1731	Change S-HR	Percent Change
Corn per bu	\$2.64	\$2.62	-\$0.02	-1%
Beans per bu	\$5.81	\$6.09	\$0.28	5%
Cotton per lb	\$0.719	\$0.733	\$0.014	1%
Rice per cwt	\$11.53	\$11.57	\$0.04	0.3%
Wheat per bu	\$3.82	\$3.83	\$0.01	0.3%

Expected gross returns for the 2008 crop, H.R. 2646 vs S. 1731

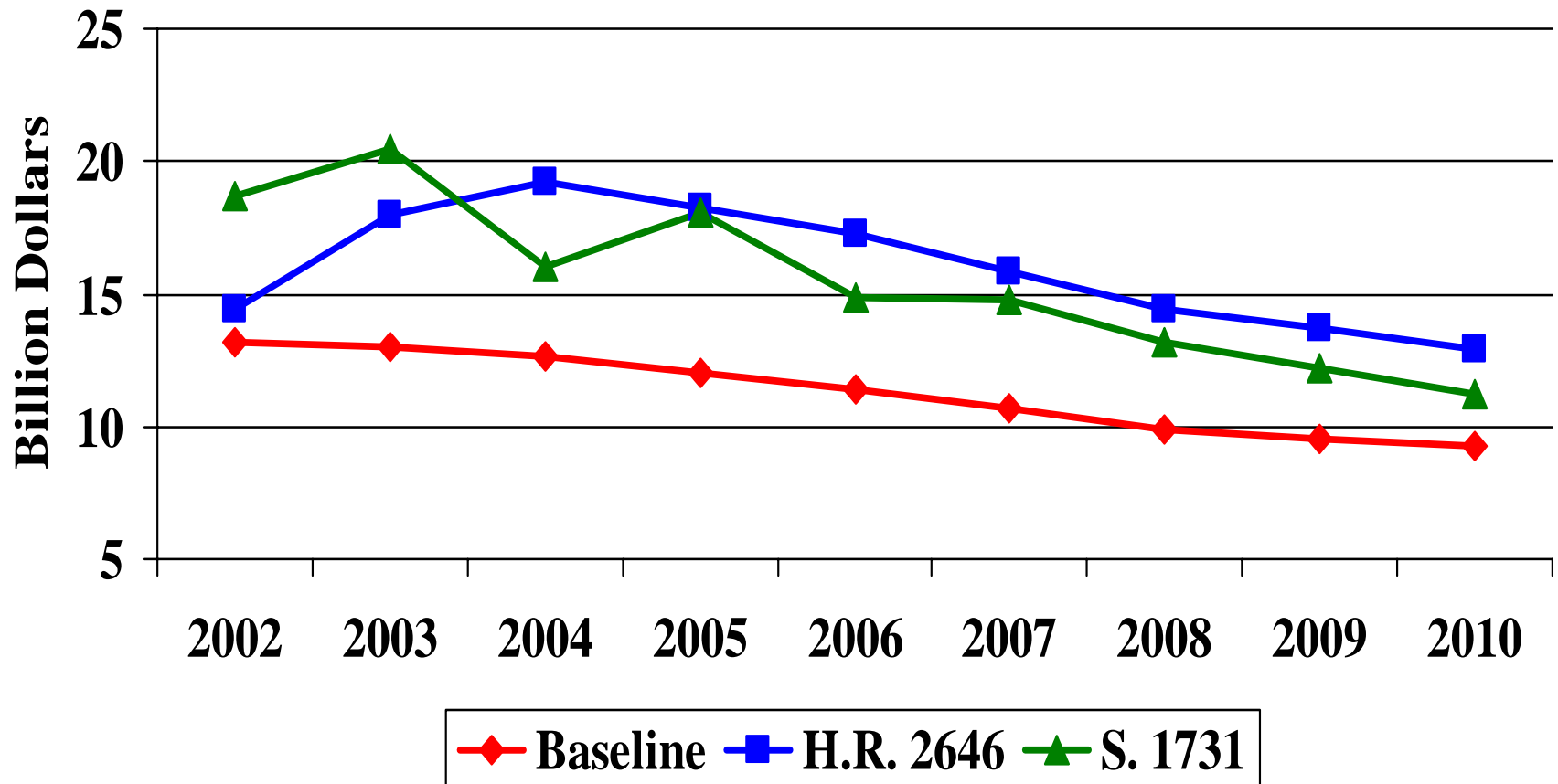
- Given FAPRI's projected prices, table shows a comparison of expected total revenue from the market and gov't payments per unit of production

	H.R. 2646	S. 1731	Change S-HR	Percent Change
Corn per bu	\$2.72	\$2.64	-\$0.08	-3%
Beans per bu	\$6.01	\$6.10	\$0.09	1.5%
Cotton per lb	\$0.713	\$0.701	-\$0.014	-1.7%
Rice per cwt	\$11.33	\$10.95	-\$0.38	-3.3%
Wheat per bu	\$3.89	\$3.73	-\$0.16	-4%

Comparison of Payment Limits

	Current Law	HR 2646	S 1731	Grassley Amendment
Fixed & Counter-Cyclical	\$80,000	\$125,000	\$100,000	\$75,000
LDP's & MLG's	\$150,000	\$150,000	\$150,000	\$150,000
Triple Entity Rule or Spouse Allowance	\$230,000	\$275,000	\$250,000	\$50,000
Total Limitation	\$460,000	\$550,000	\$500,000	\$275,000

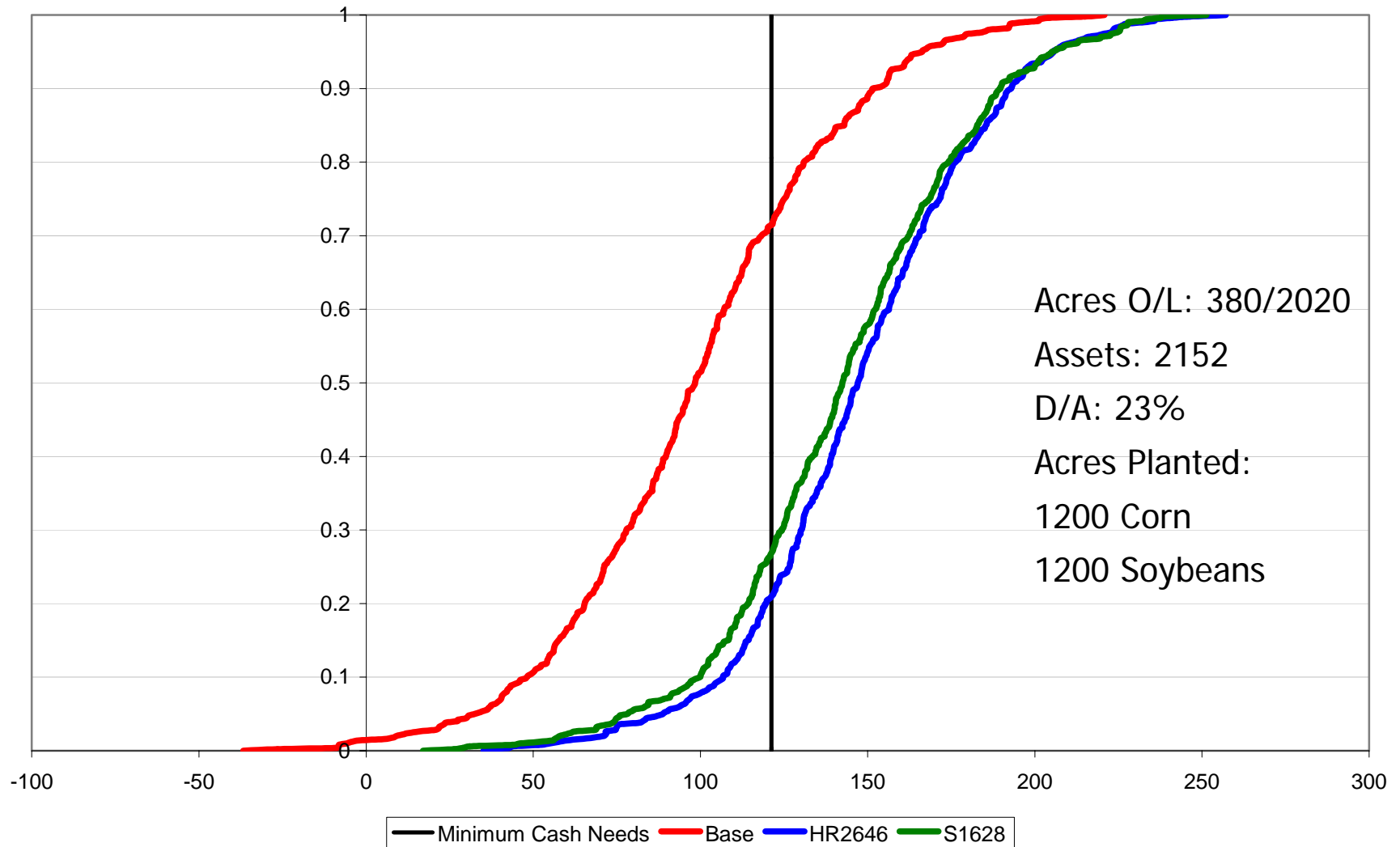
FAPRI's Projected Net CCC Outlays



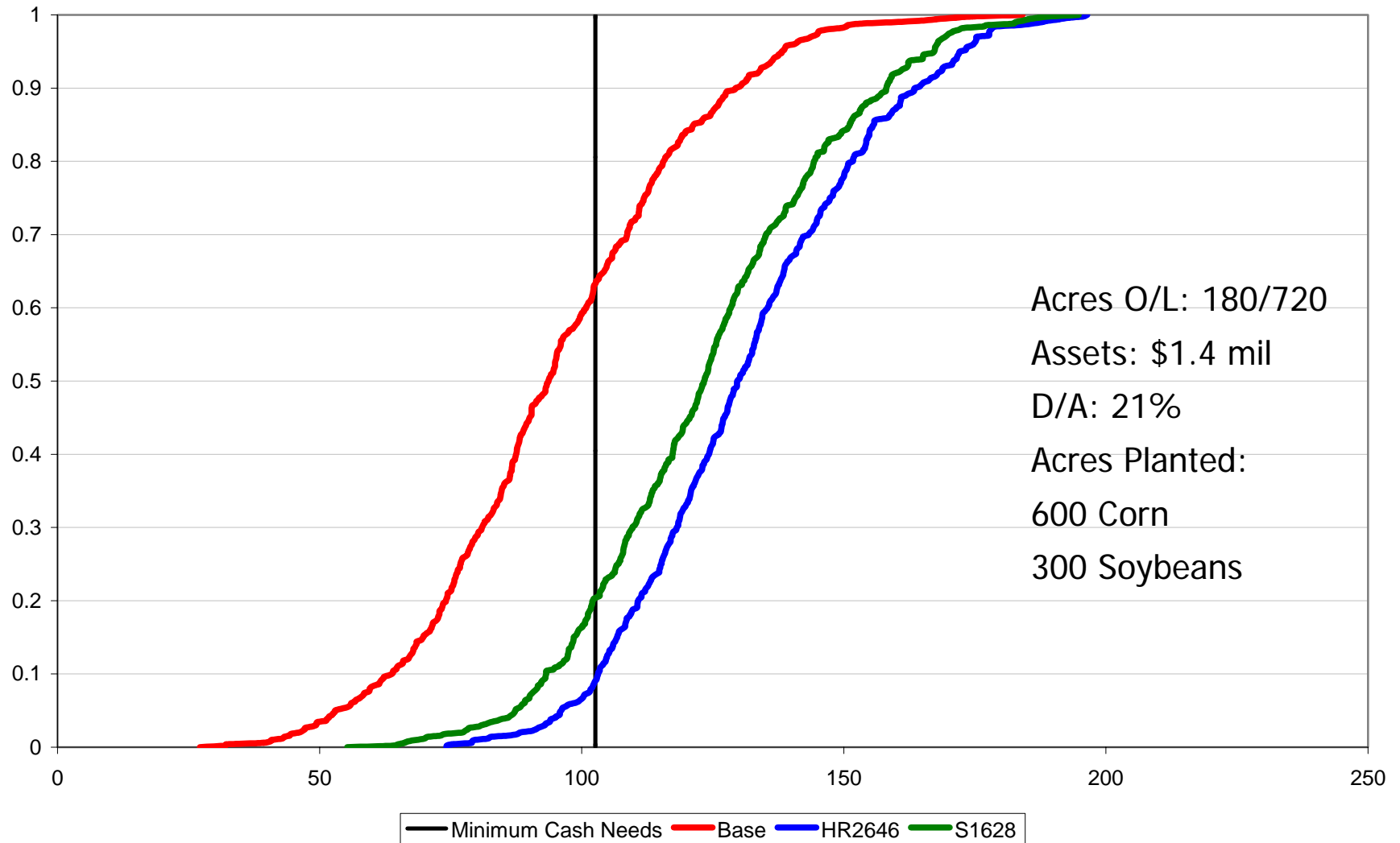
Possible WTO Implications of H.R. 2646 and S. 1731?

- If the CCP is classified as “non-product-specific Amber box,” then FAPRI analyses suggest spending under H.R. 2646 and S. 1731 have a 36.5% and 30% chance of exceeding the AMS cap of \$19.1 billion for the 2002 crop.
- As prices increase over the projection period, probability of exceeding AMS cap declines.

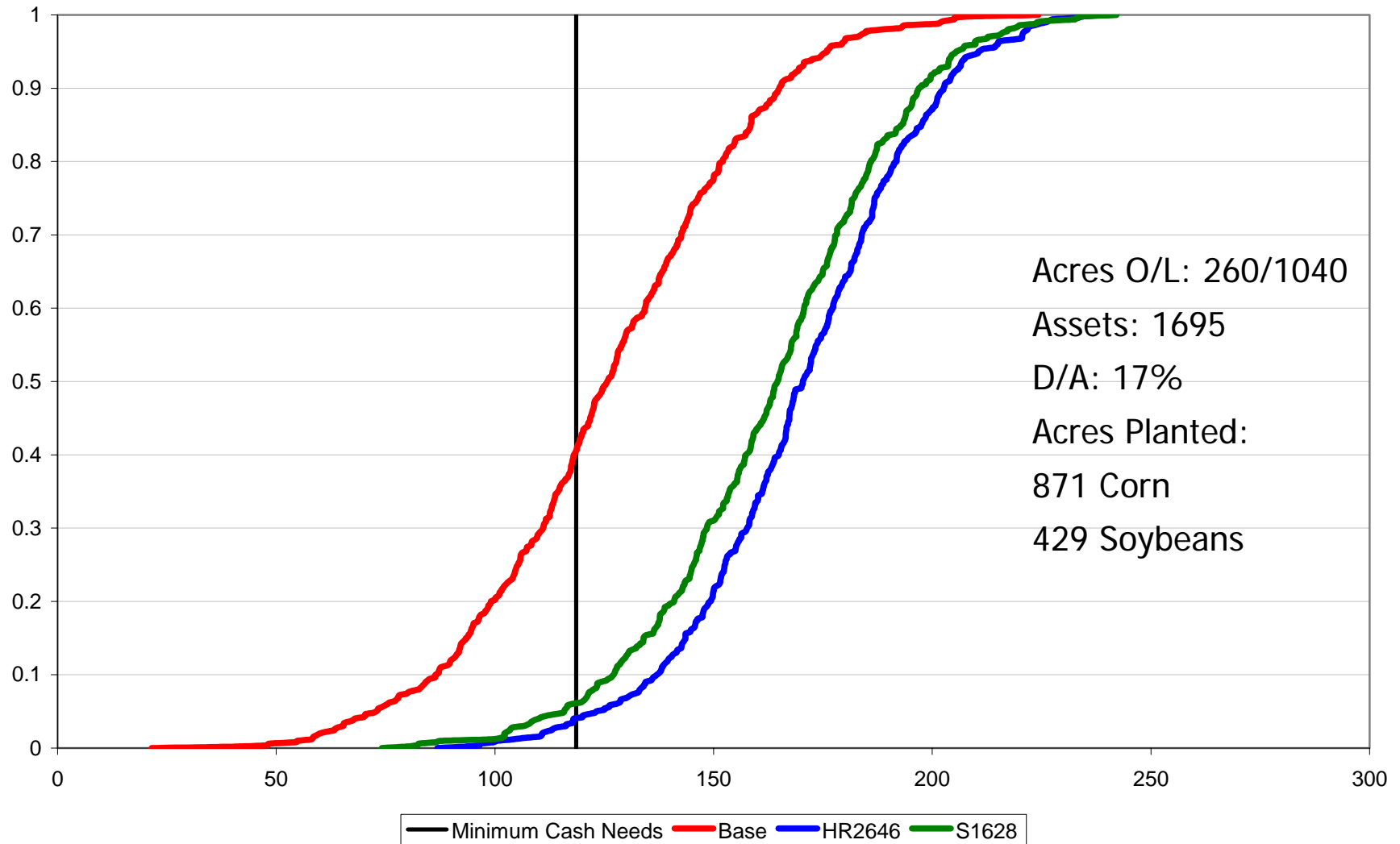
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the IAG 2400 Representative Grain Farm



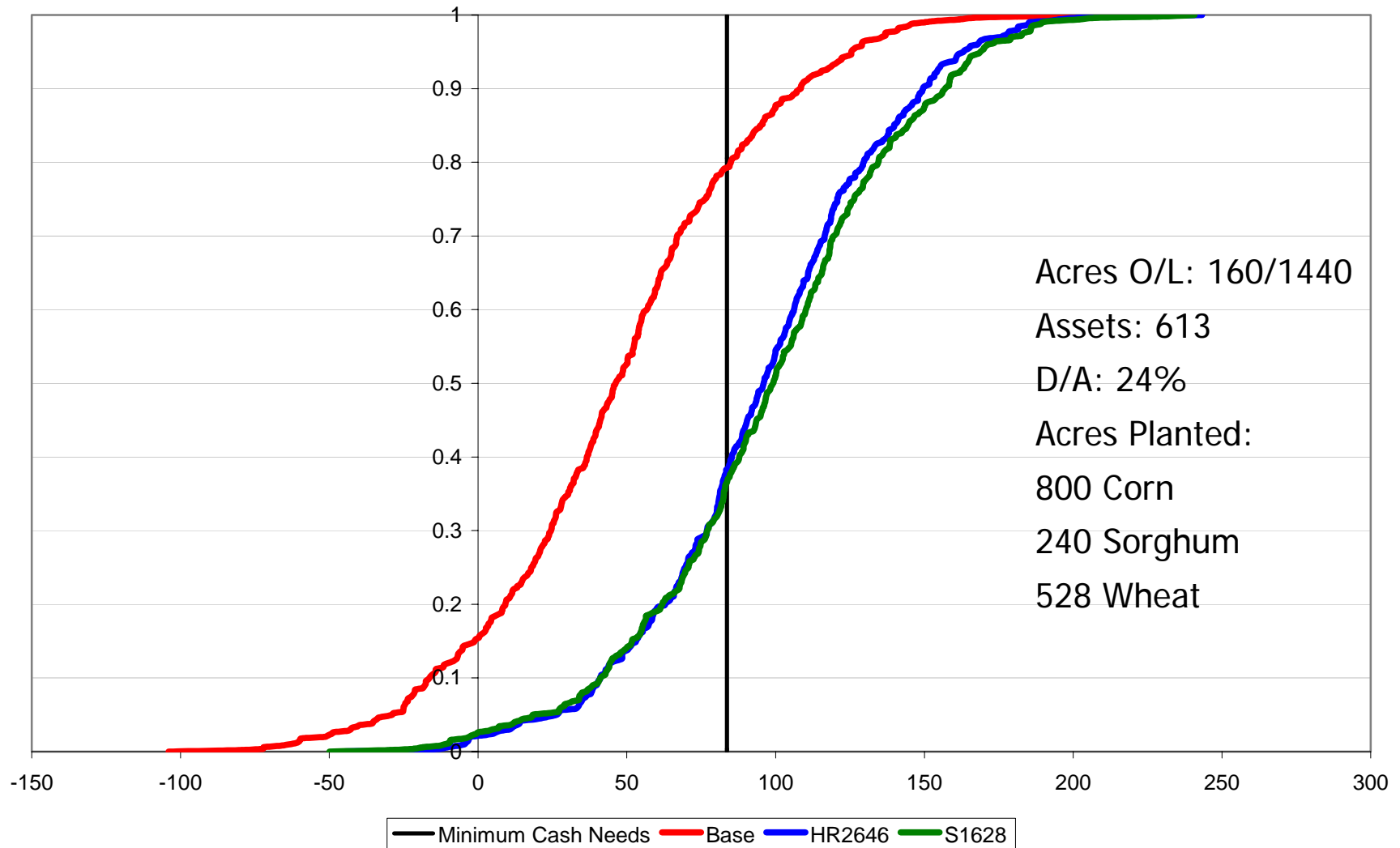
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the NEG900 Representative Grain Farm



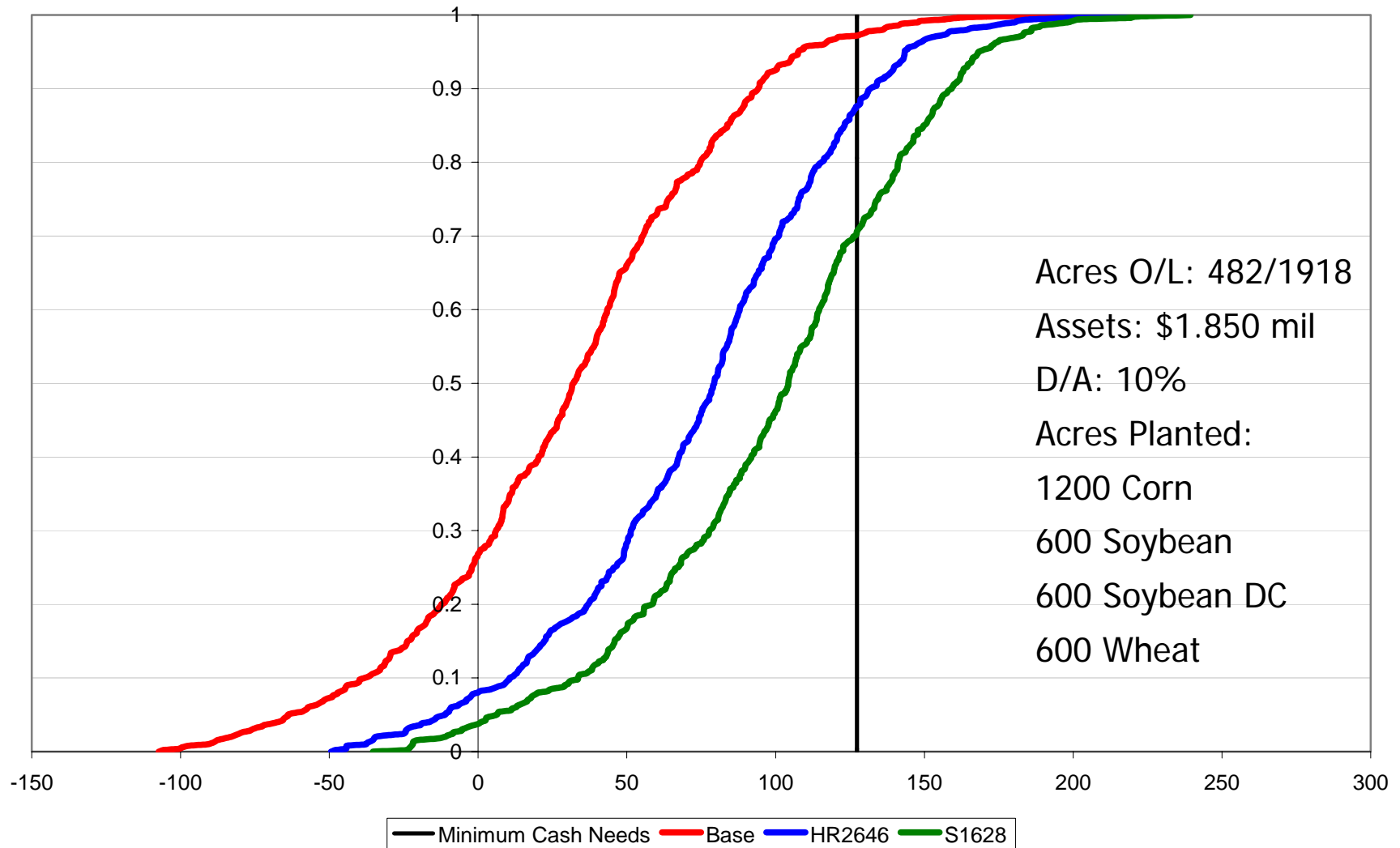
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the NEG1300 Representative Grain Farm



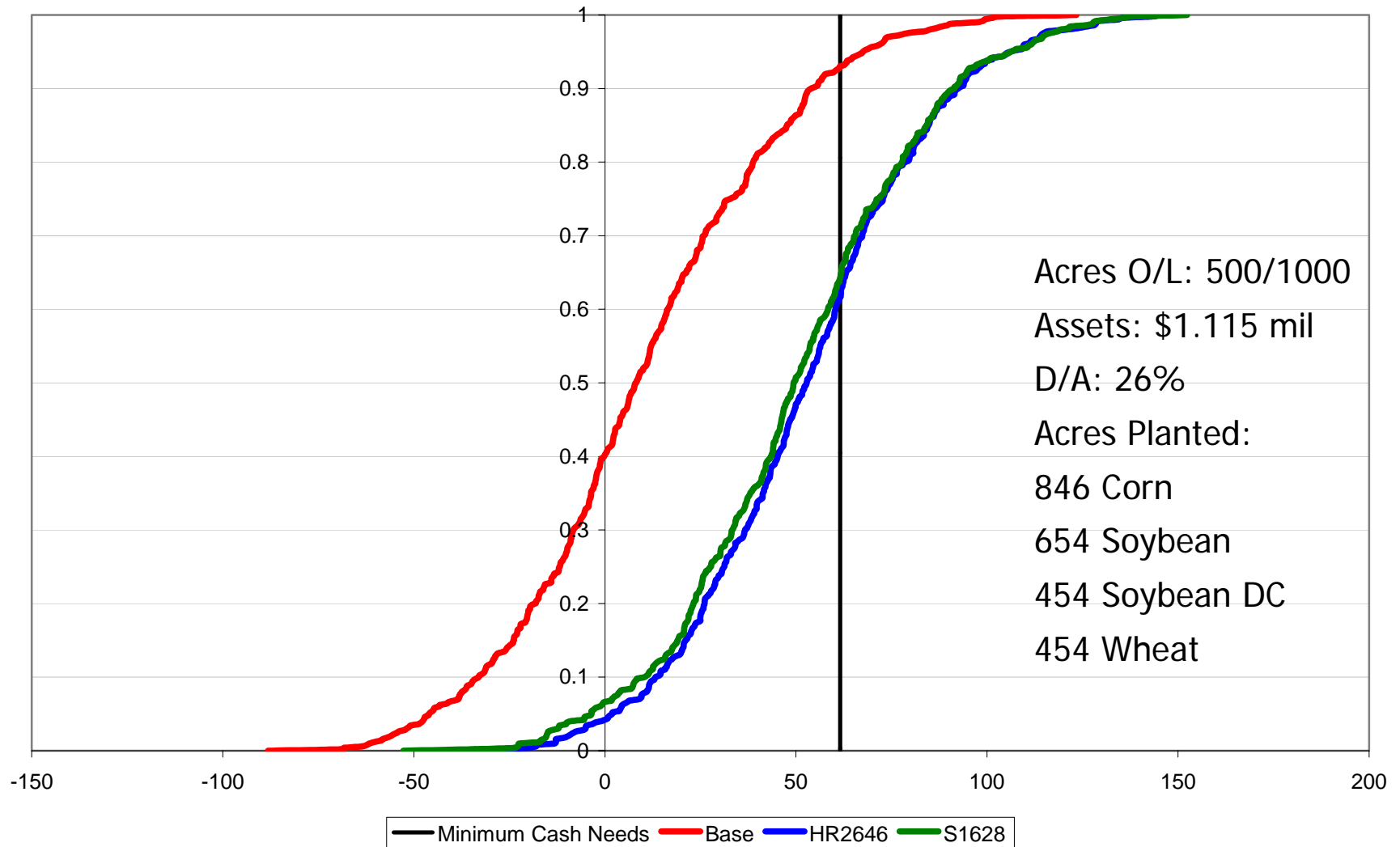
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the TXNP1600 Representative Grain Farm



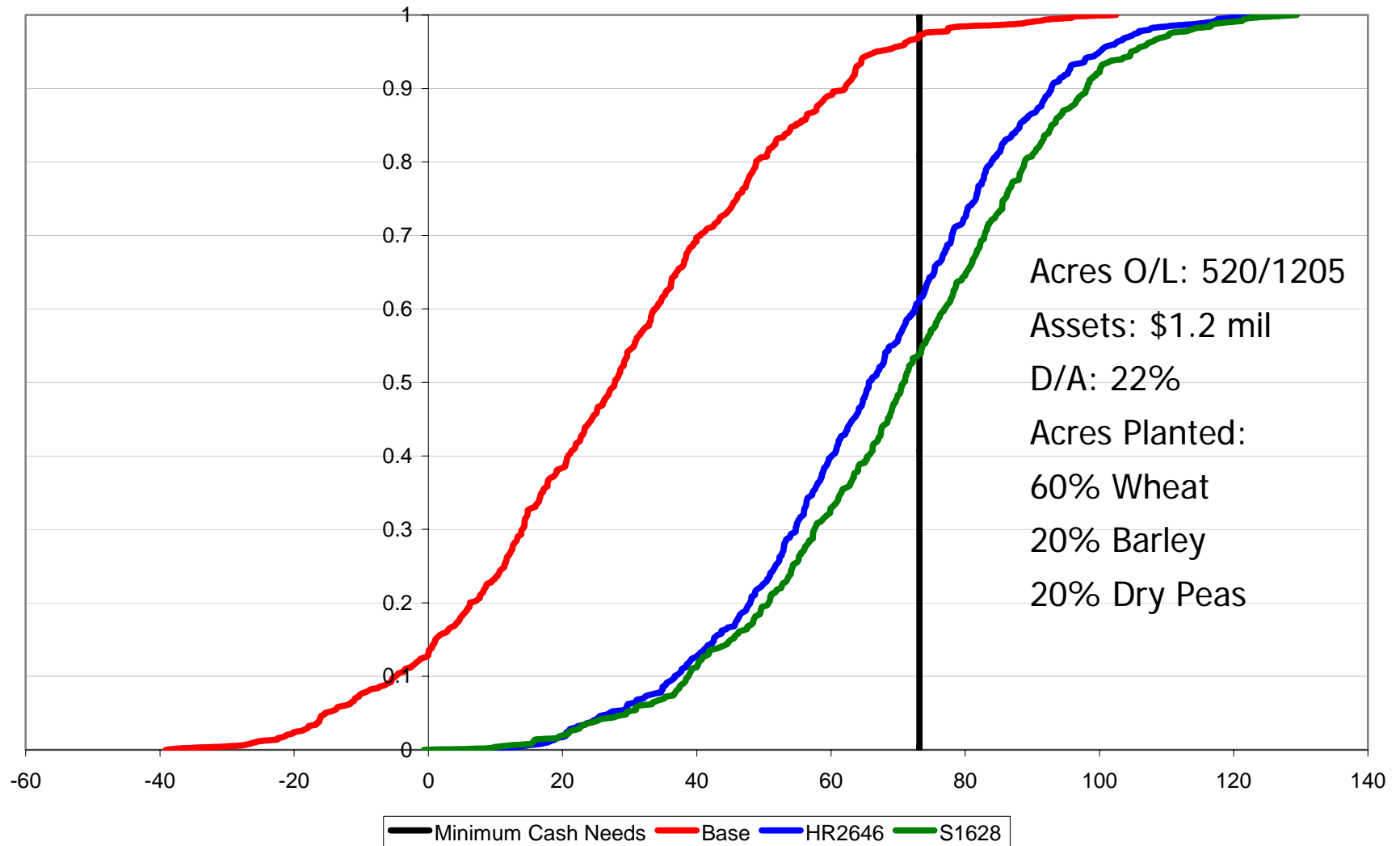
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the TNG2400 Representative Grain Farm



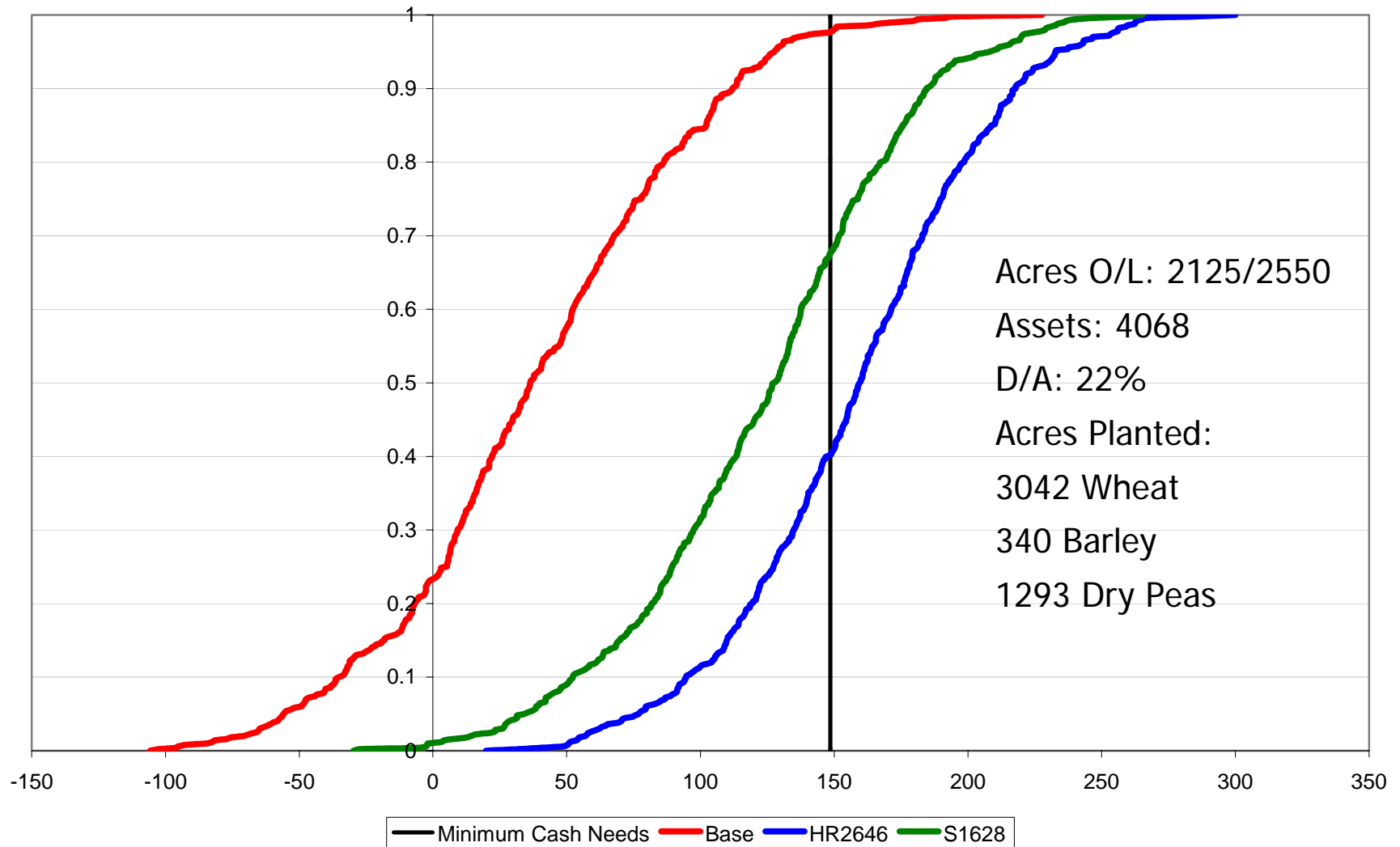
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the SCG1500 Representative Grain Farm



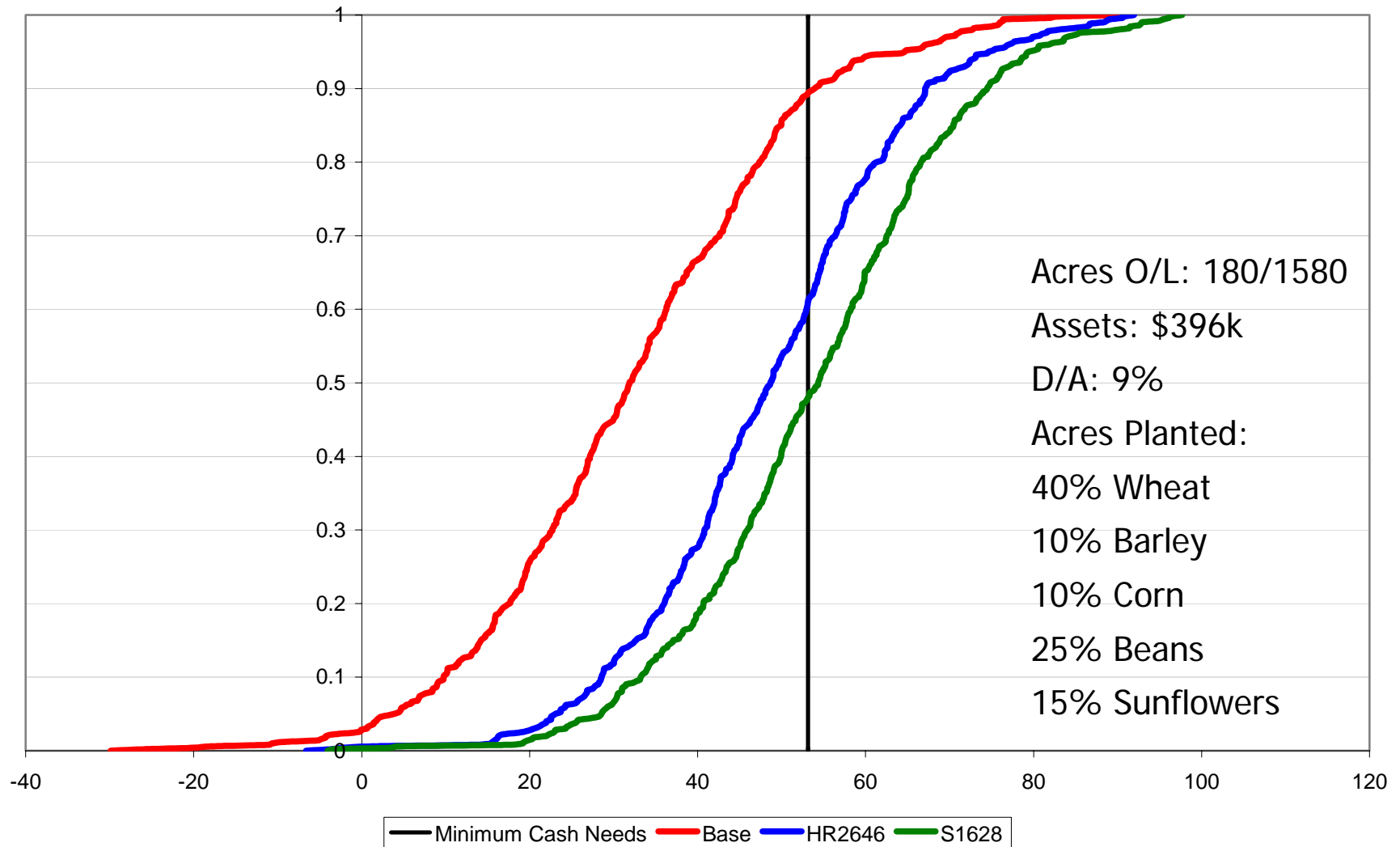
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the WAW1725 Representative Wheat Farm



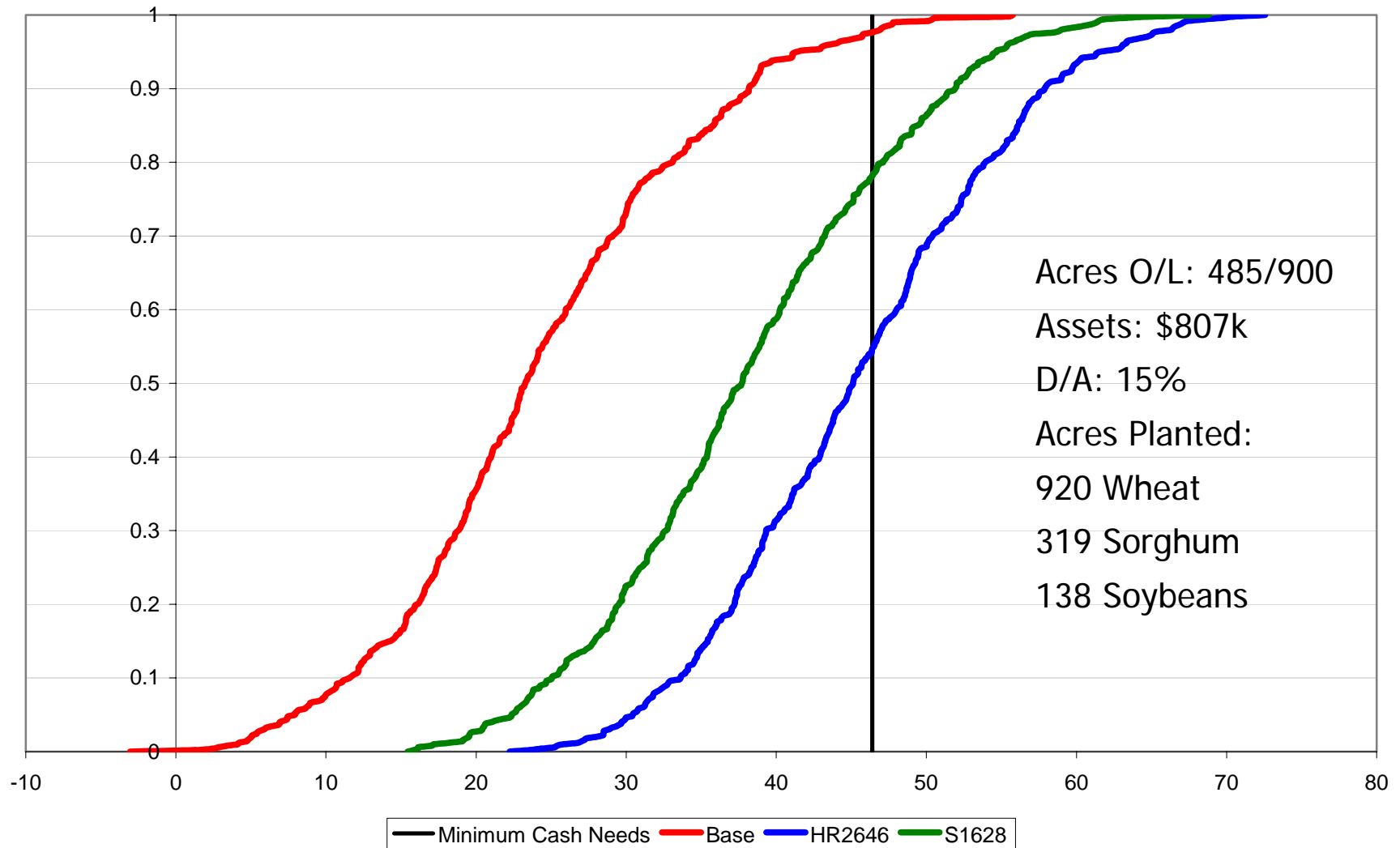
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the WAW4675 Representative Wheat Farm



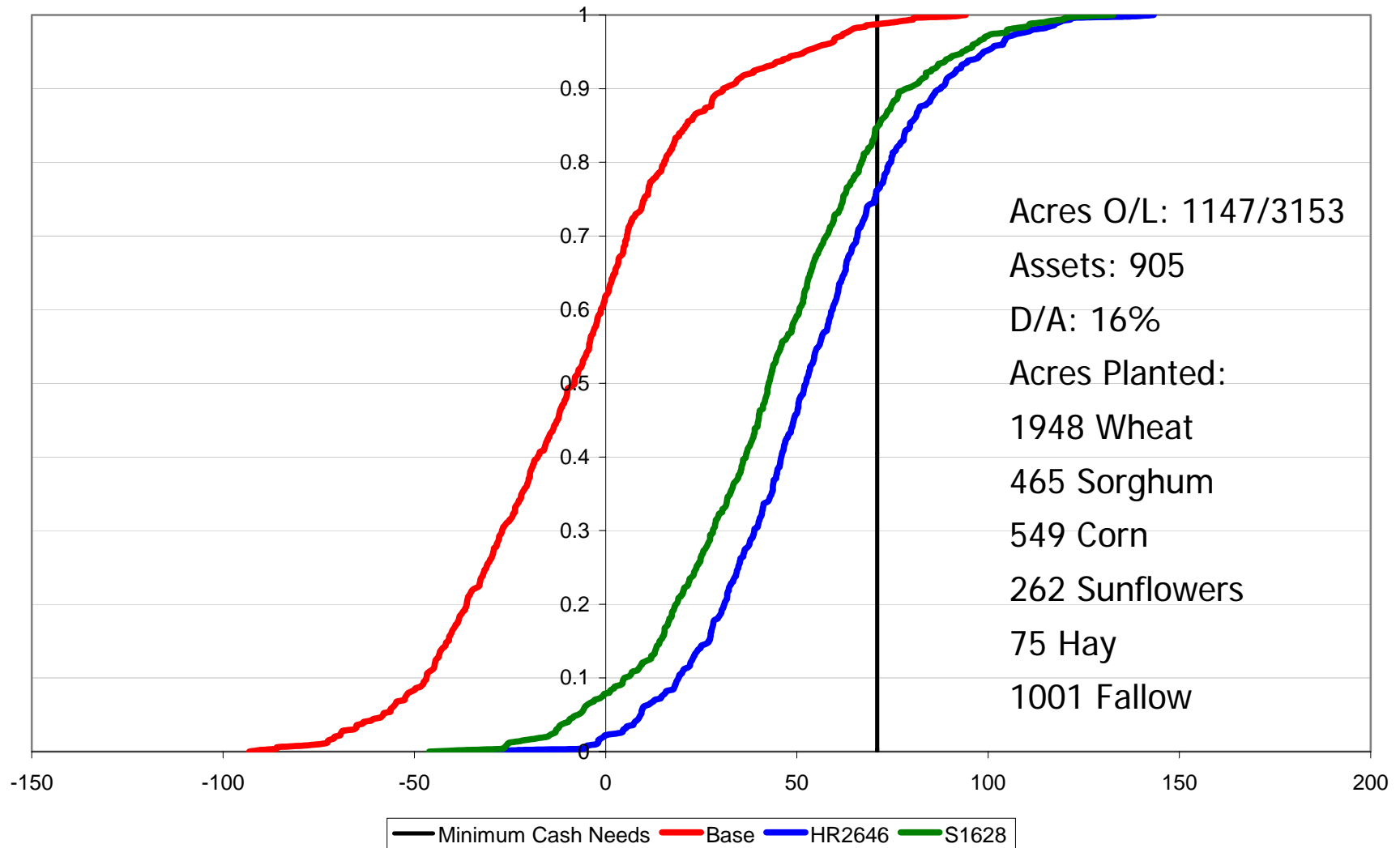
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the NDW1760 Representative Wheat Farm



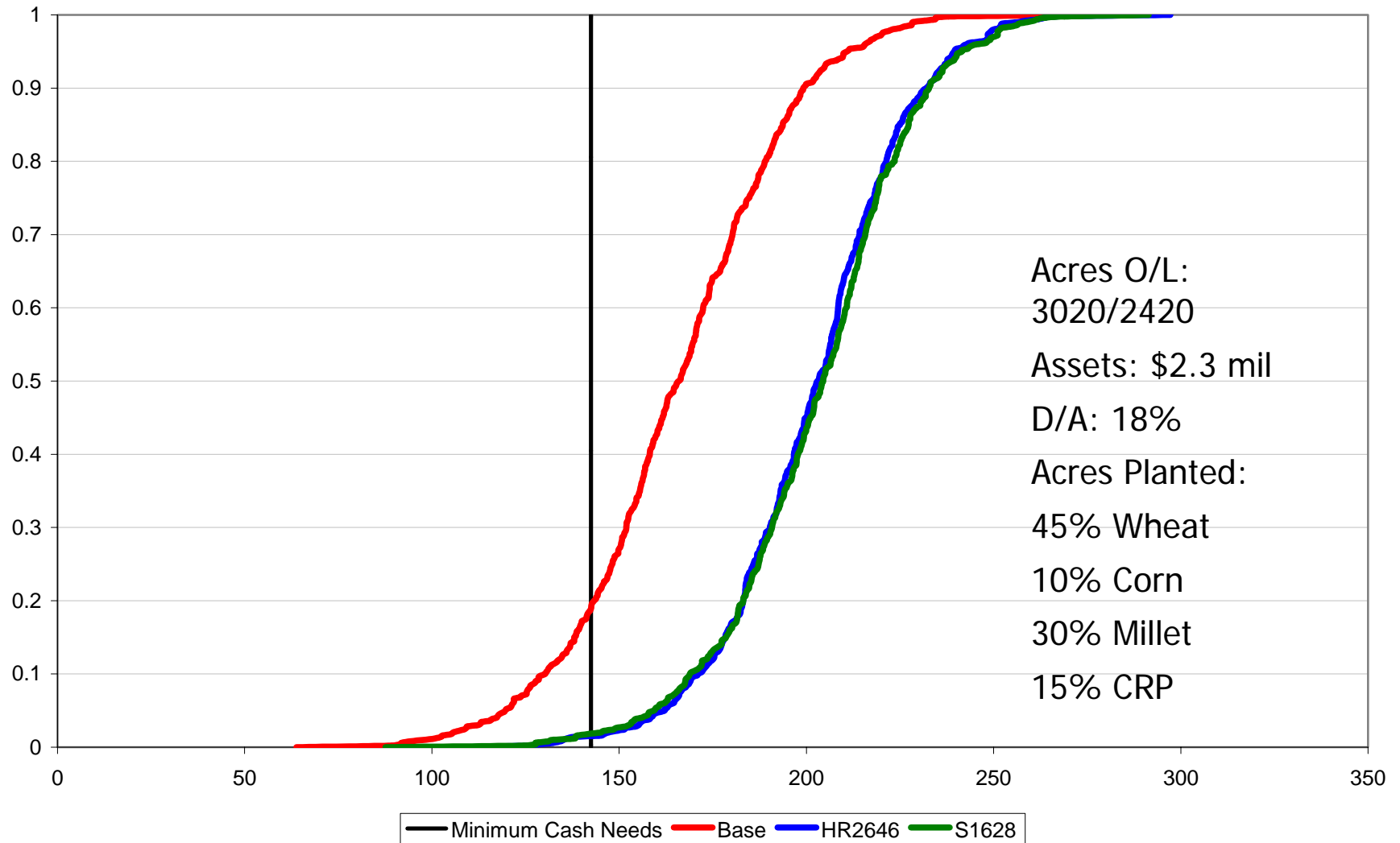
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the KSCW1385 Representative Wheat Farm



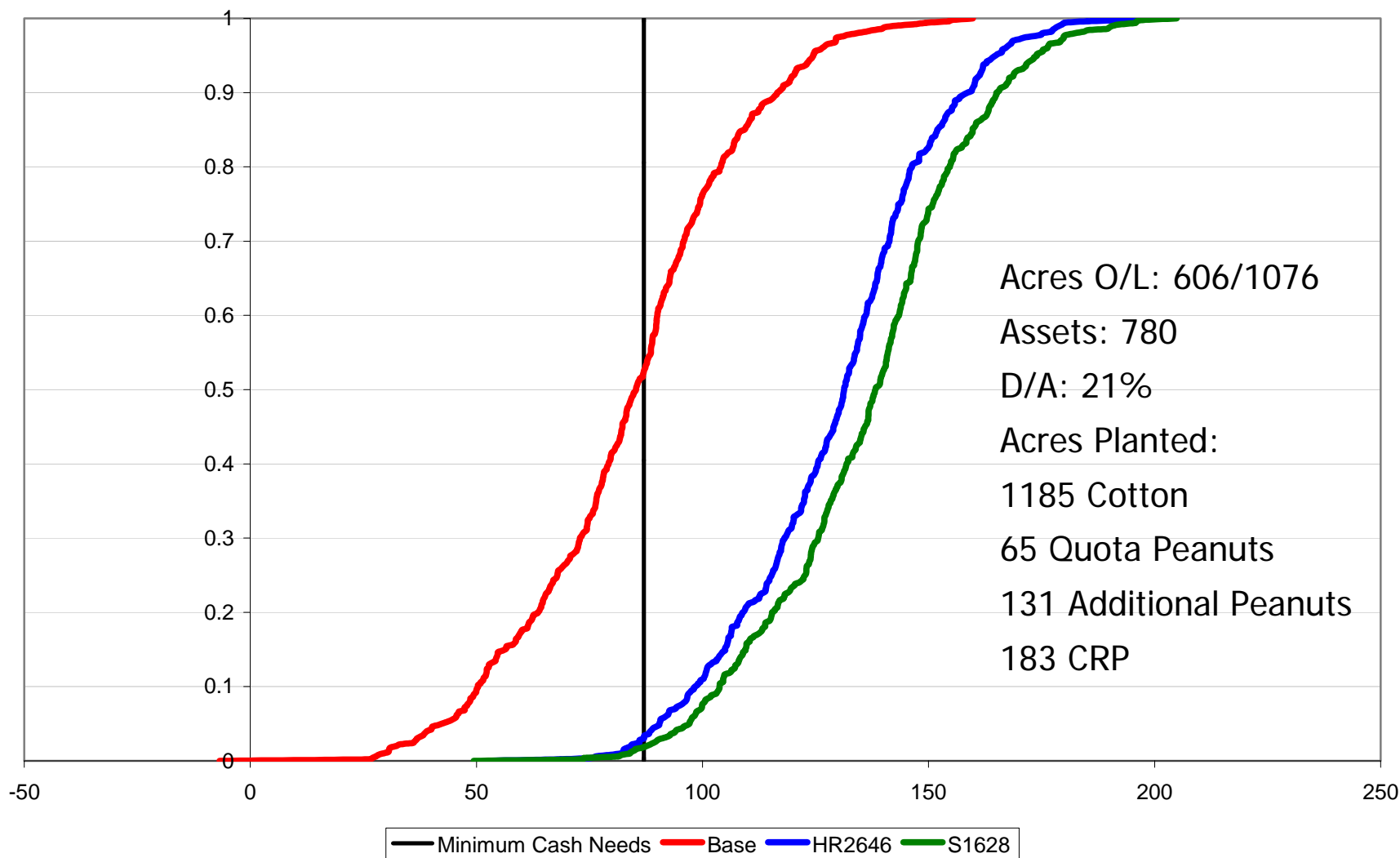
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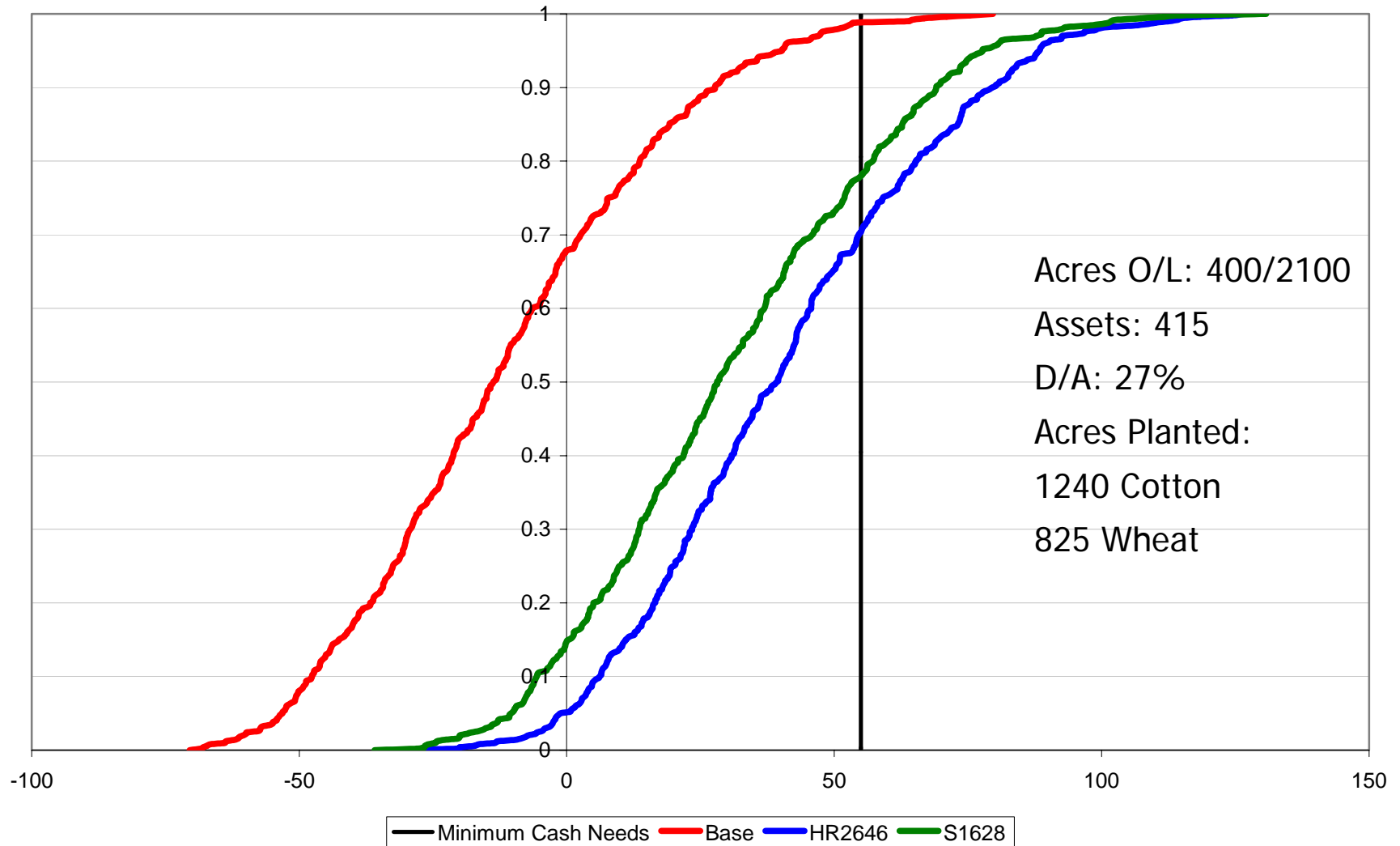
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the COW5440 Representative Wheat Farm



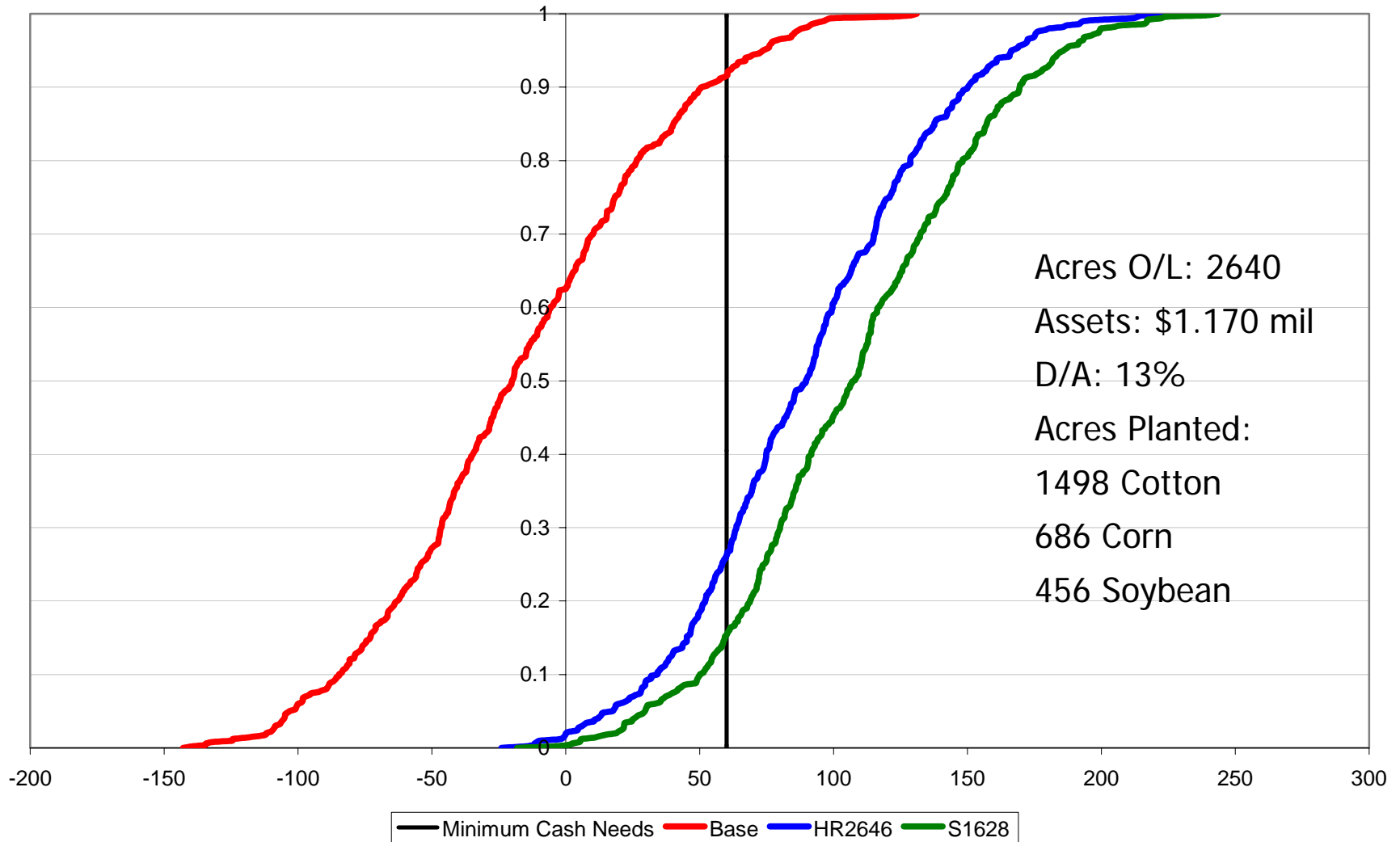
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the TXSP1682 Representative Cotton Farm



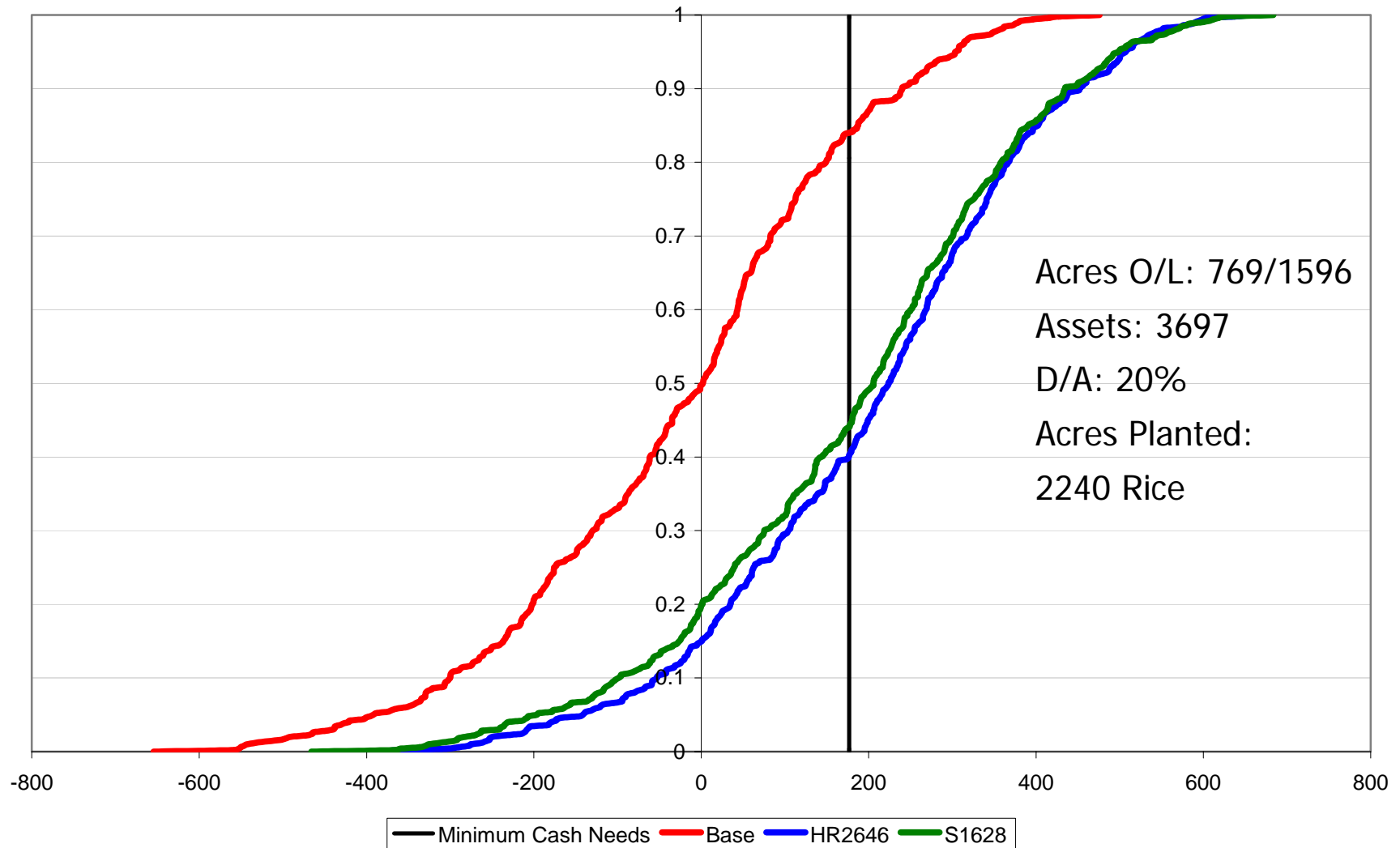
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the TXRP2500 Representative Cotton Farm



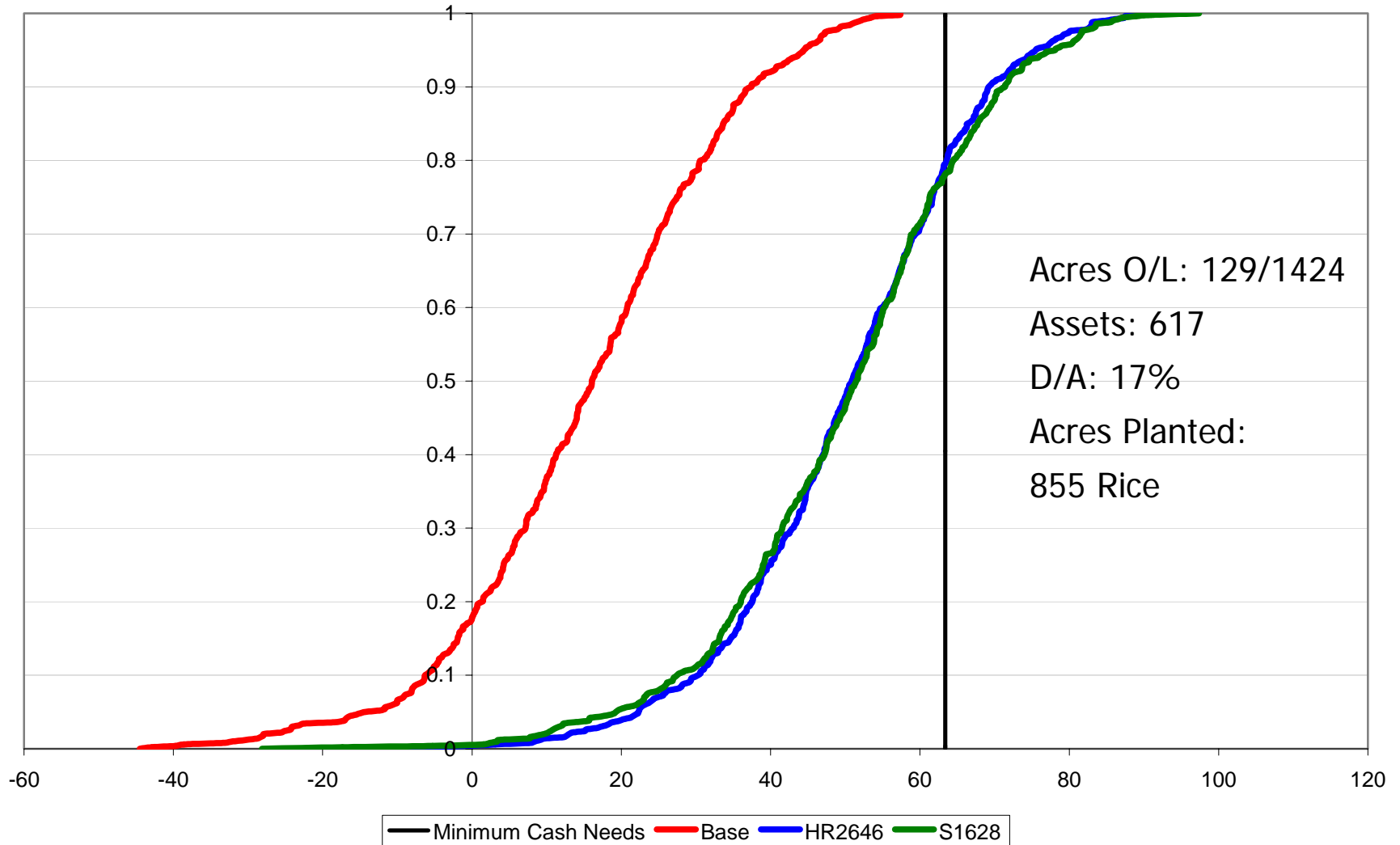
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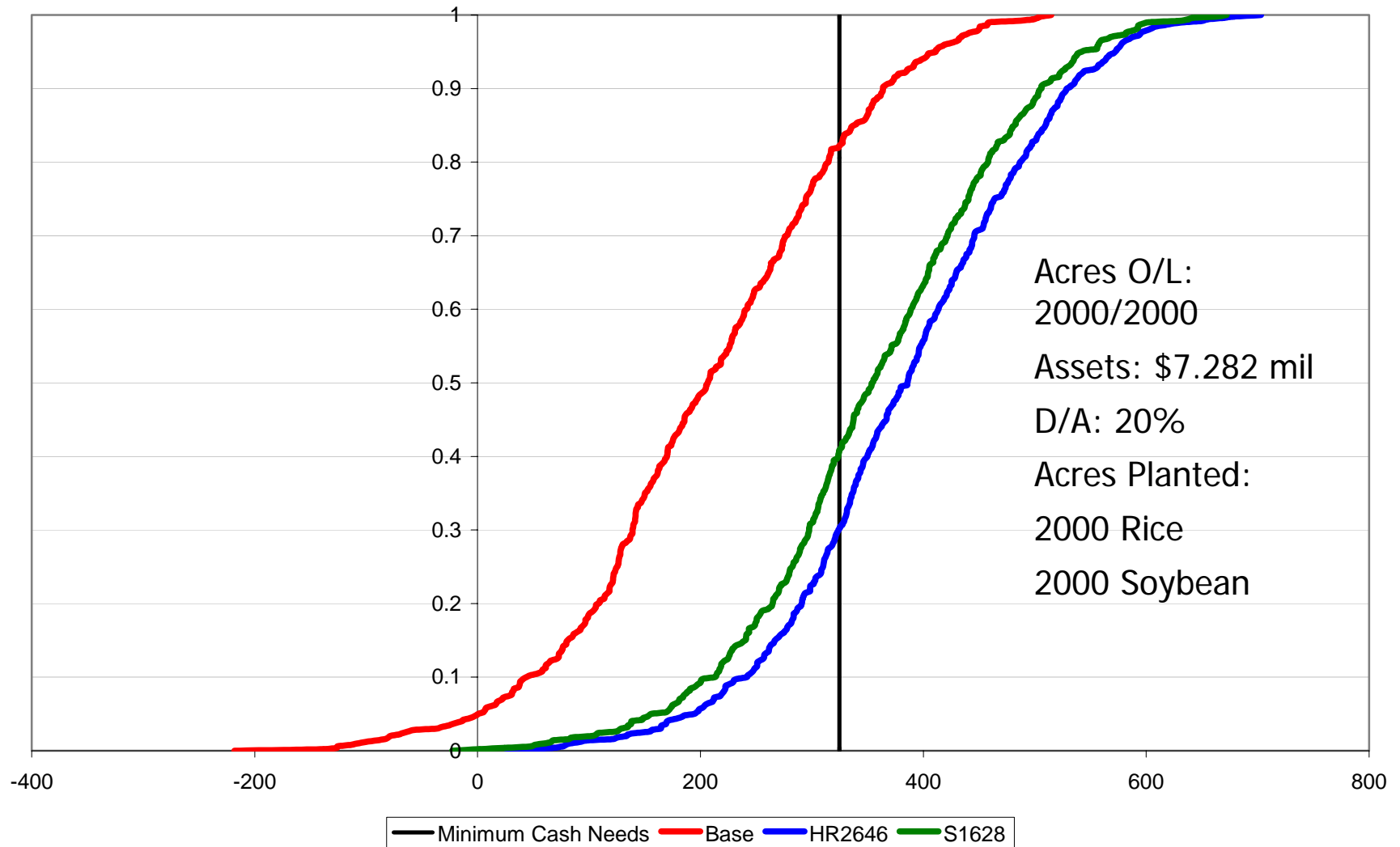
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the CAR2365 Representative Rice Farm



CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the TXR1553 Representative Rice Farm



CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the MOWR4000 Representative Rice Farm



Summary

1. The Analysis of the House bill is based on the version that passed the full House in October 2001.
2. The Analysis of the Senate bill is based on the version that passed out of the Committee, and does not yet include the Grassley Amendment.
3. Very little acreage shift.
 1. 2.8 million under Senate in 2002.
 2. 1.46 million under House in 2002.
4. Very little price change.
5. Primarily an income enhancer, but not designed as a price mover.

Summary (cont.)

1. Both programs are based on a similar design.
2. Senate is front end loaded -- hedging that it will be a 5-year bill.
3. Senate leans towards the loan rates as a price enhancing mechanism (more coupled than the House)
4. Senate offers update on both base acreage and yield, but subject to the same spending limits.
5. House holds the line on loan rates and gives more support through decoupled payments.
6. The commodity provisions of the two bills are similar, however the Grassley Amendment is likely to be a major stumbling block.

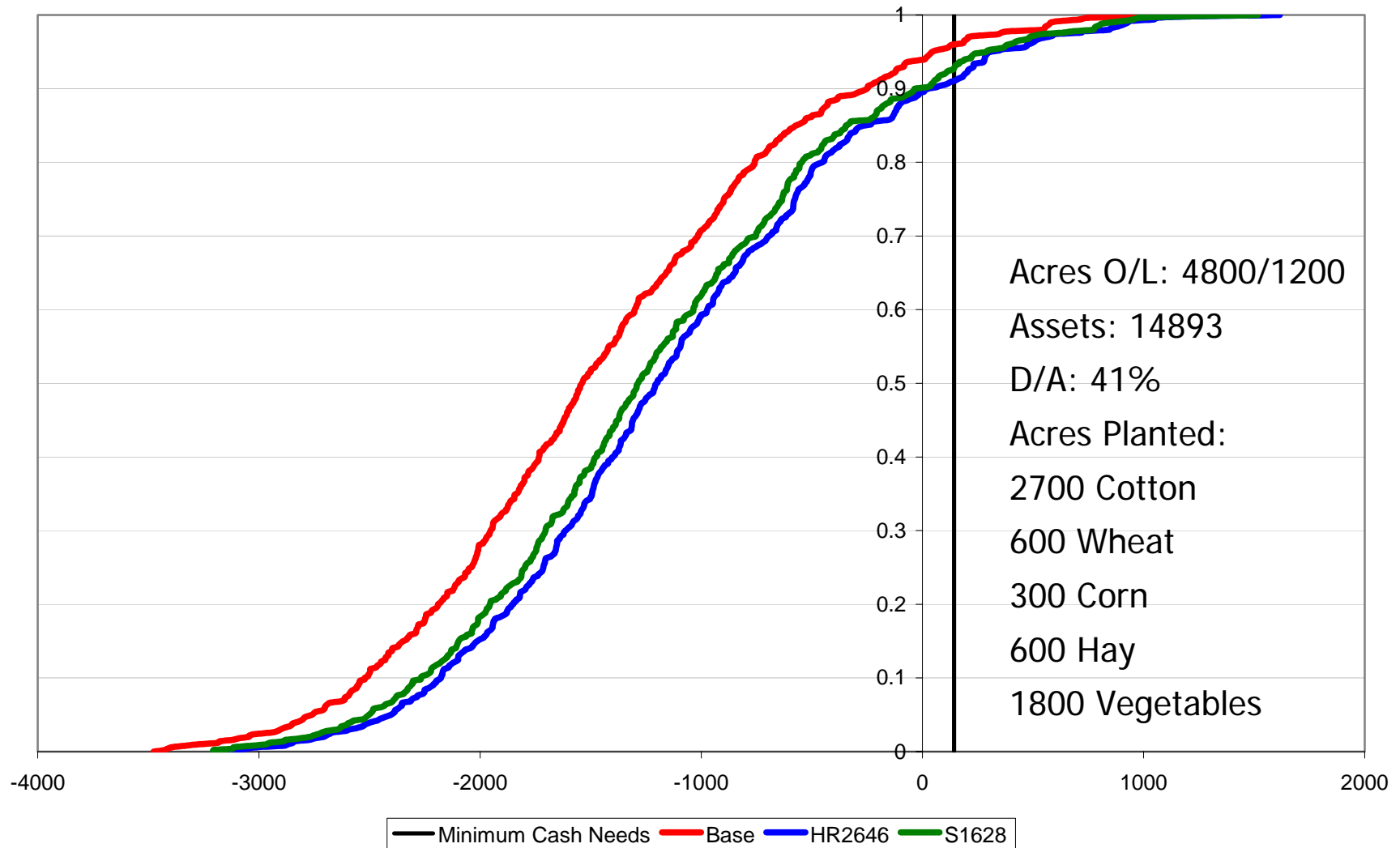
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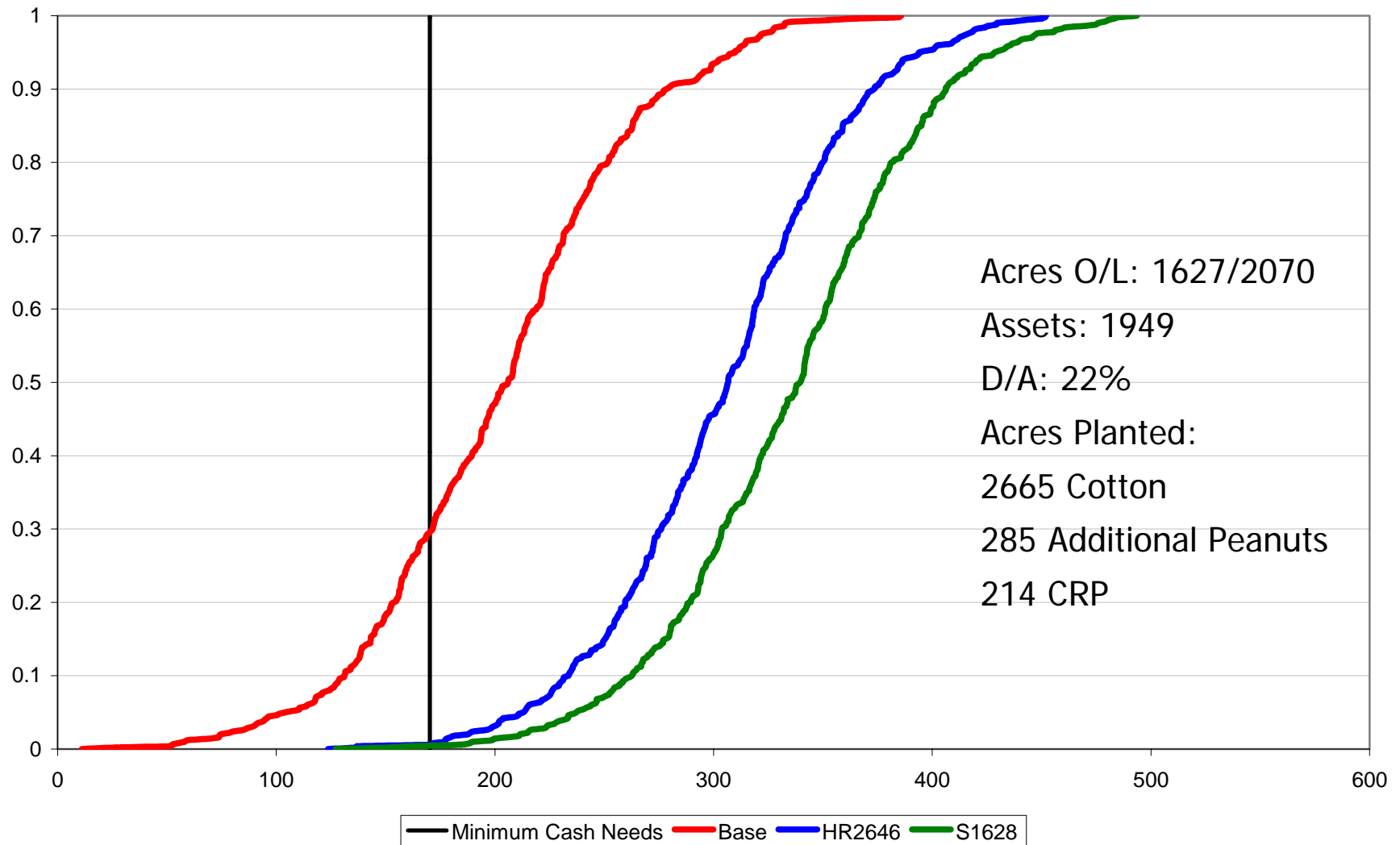
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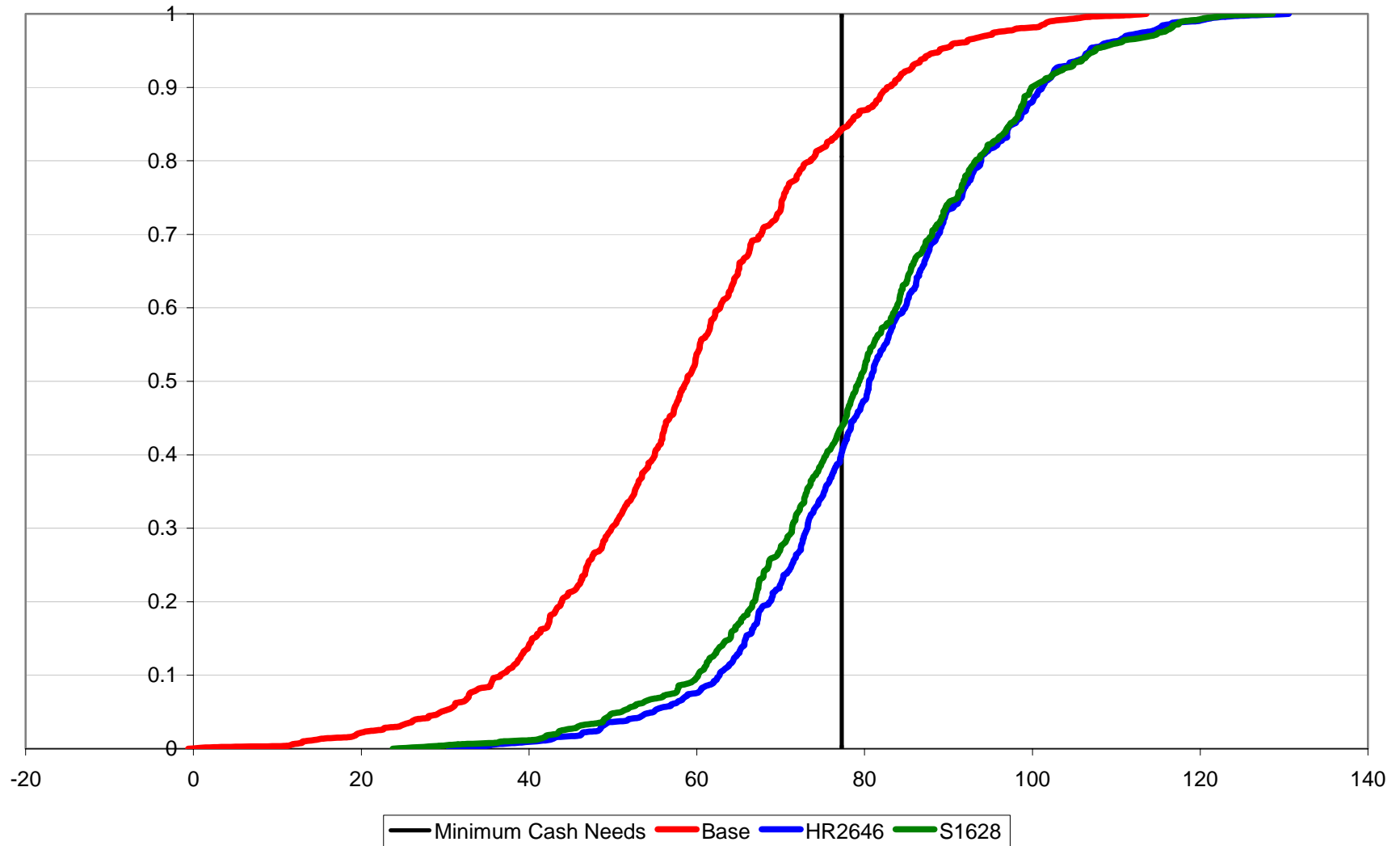
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the CAC6000 Representative Cotton Farm



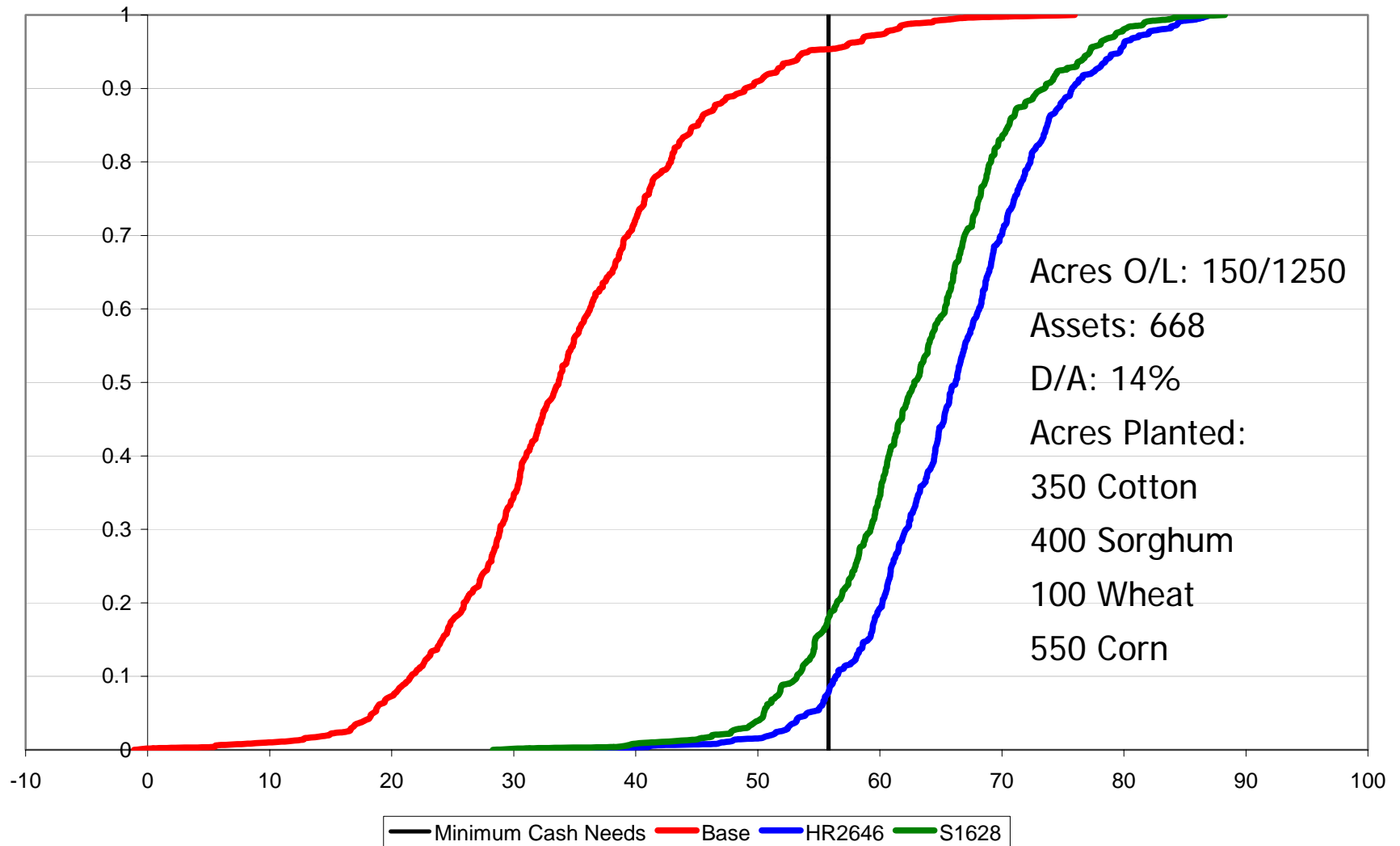
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the TXSP3697 Representative Cotton Farm



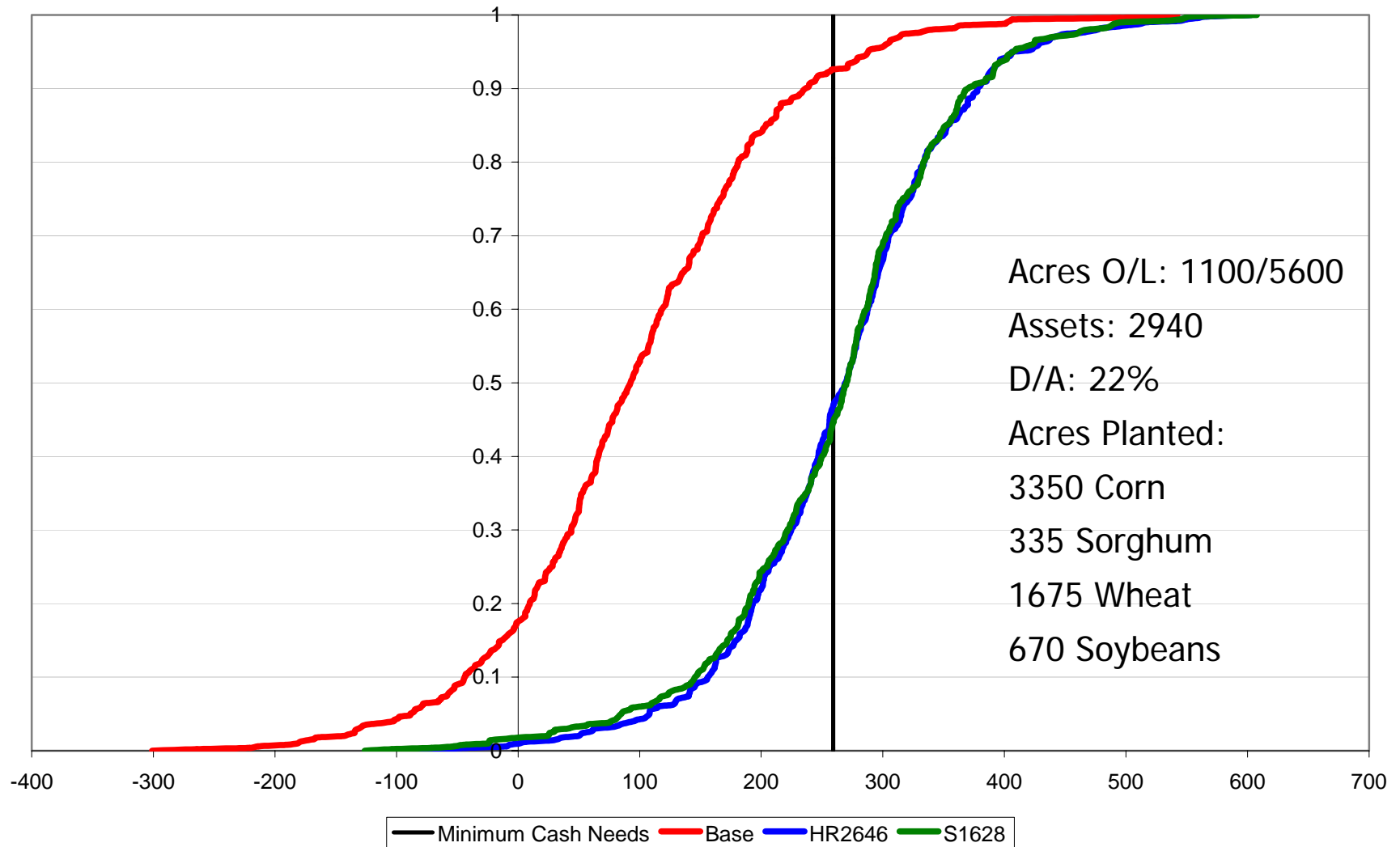
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the IAG950 Representative Grain Farm



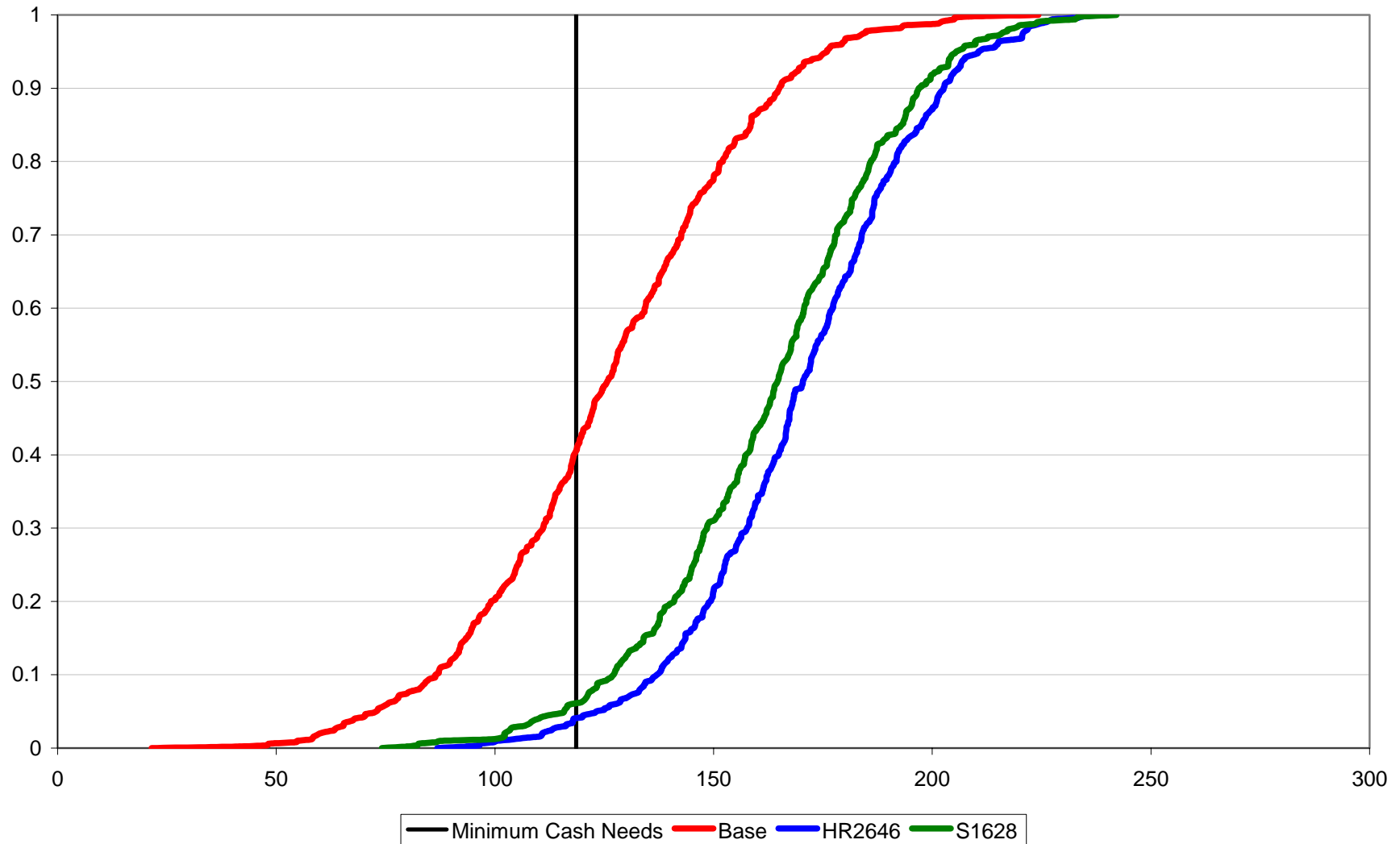
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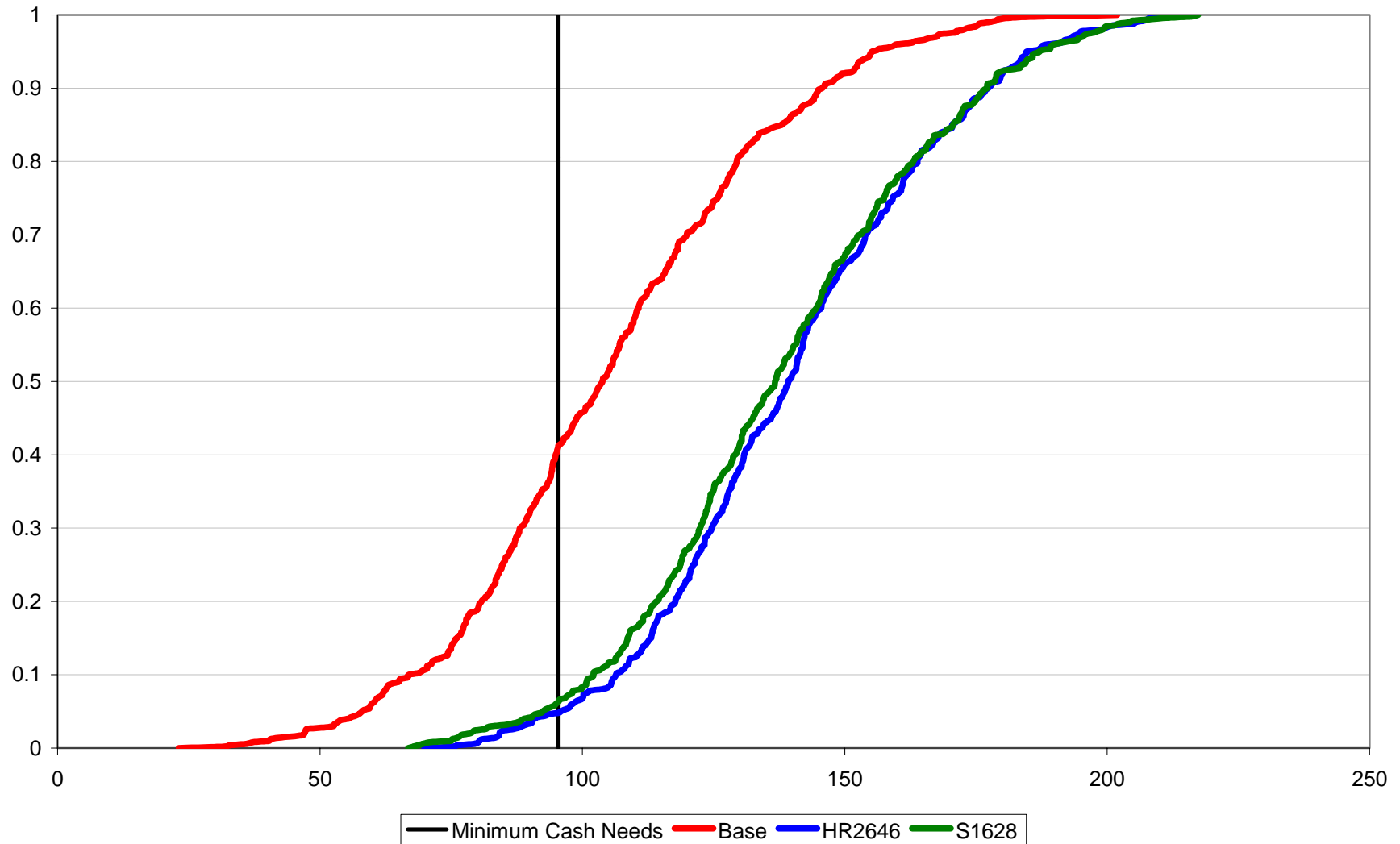
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the TXNP6700 Representative Grain Farm



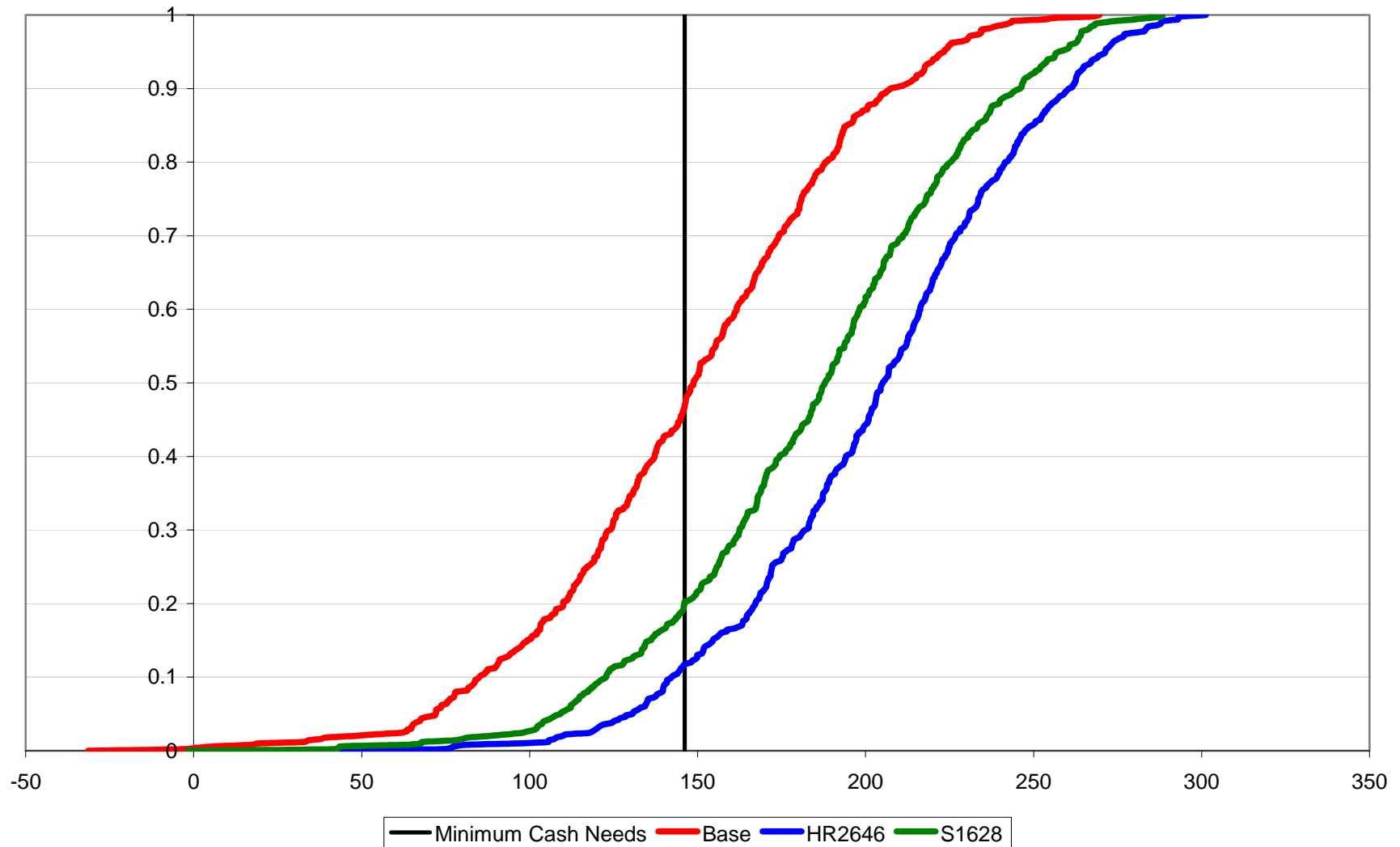
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the NEG1300 Representative Grain Farm



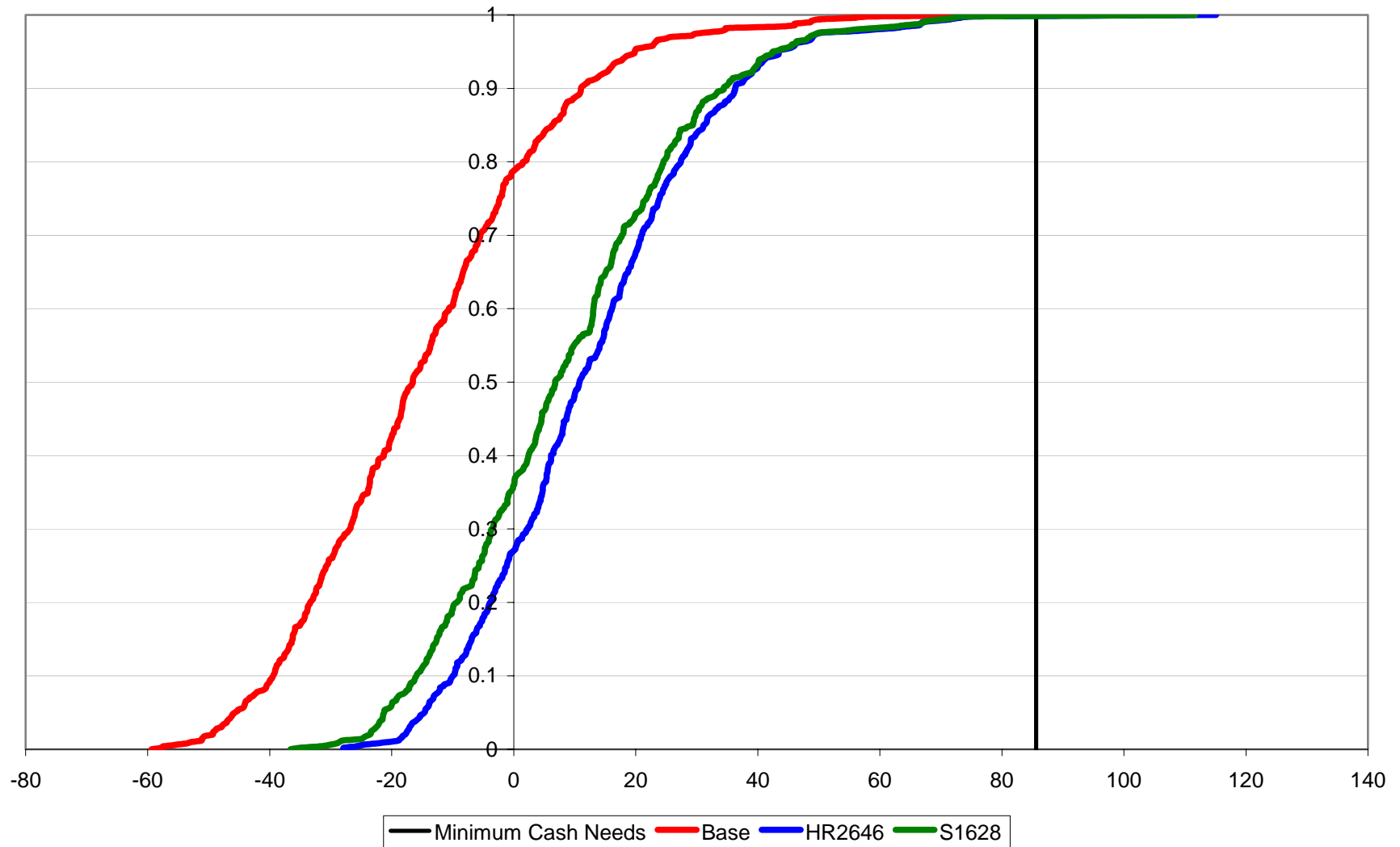
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the MOCG1700 Representative Grain Farm



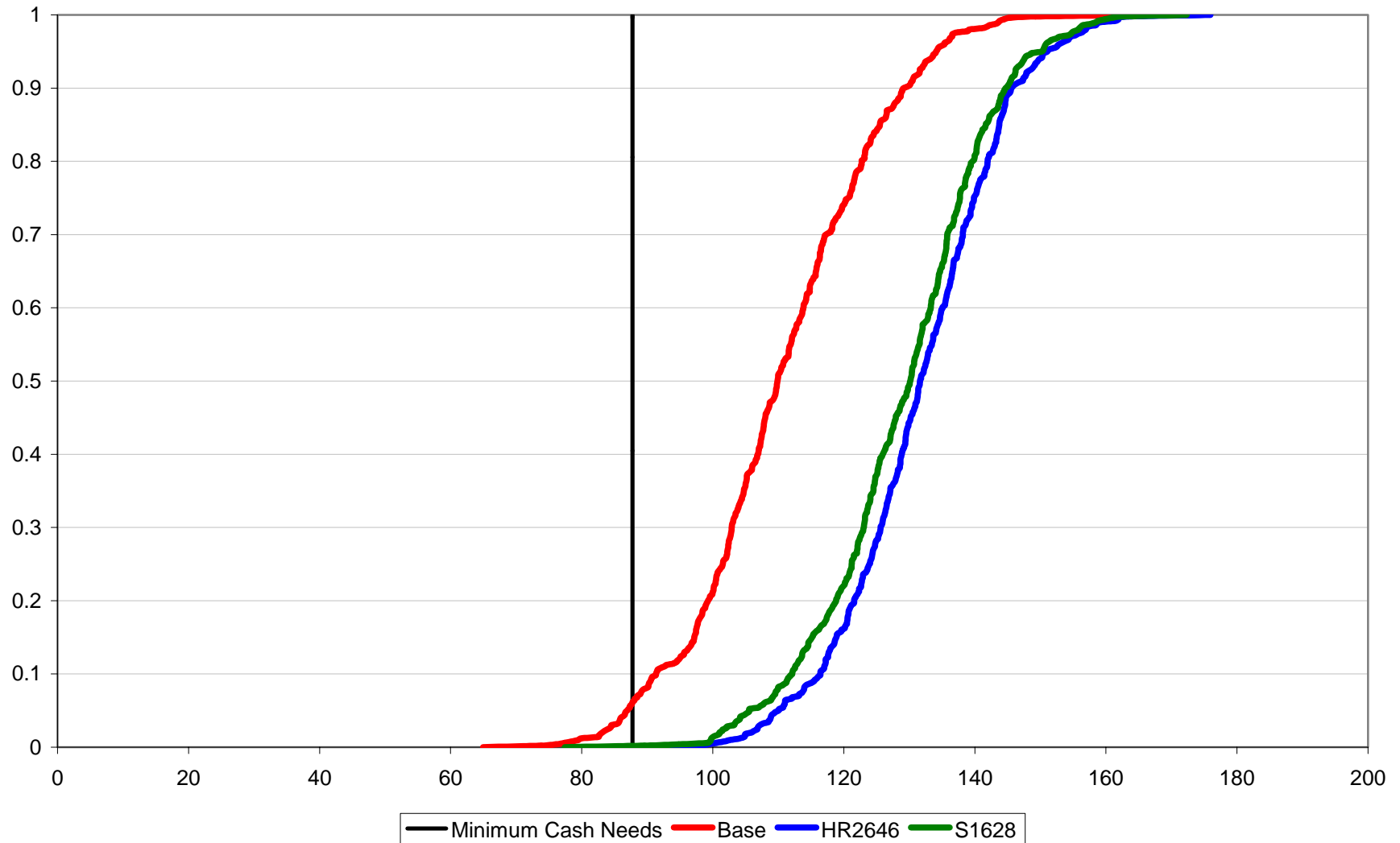
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the MONG2050 Representative Grain Farm



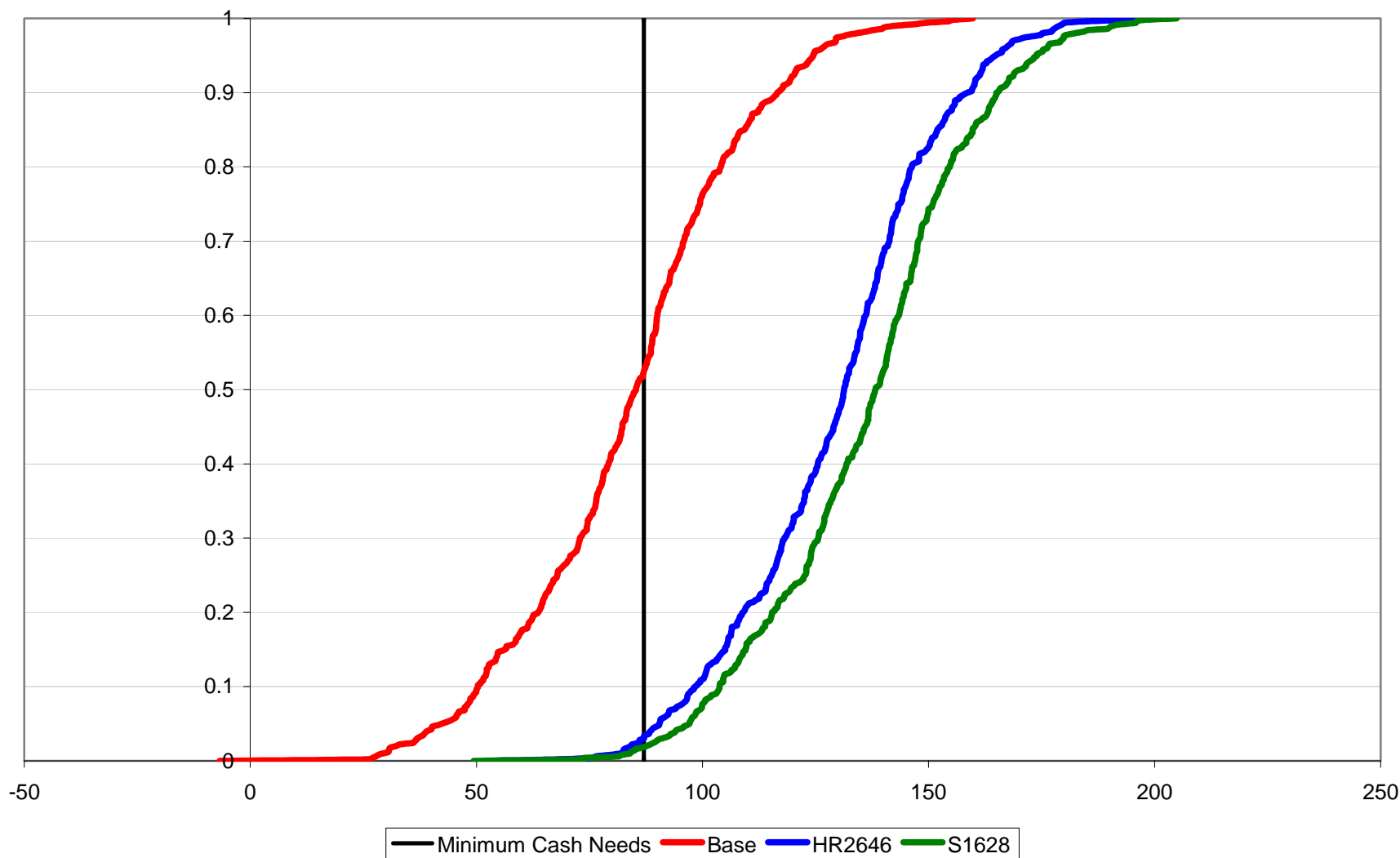
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the KSNW2325 Representative Wheat Farm



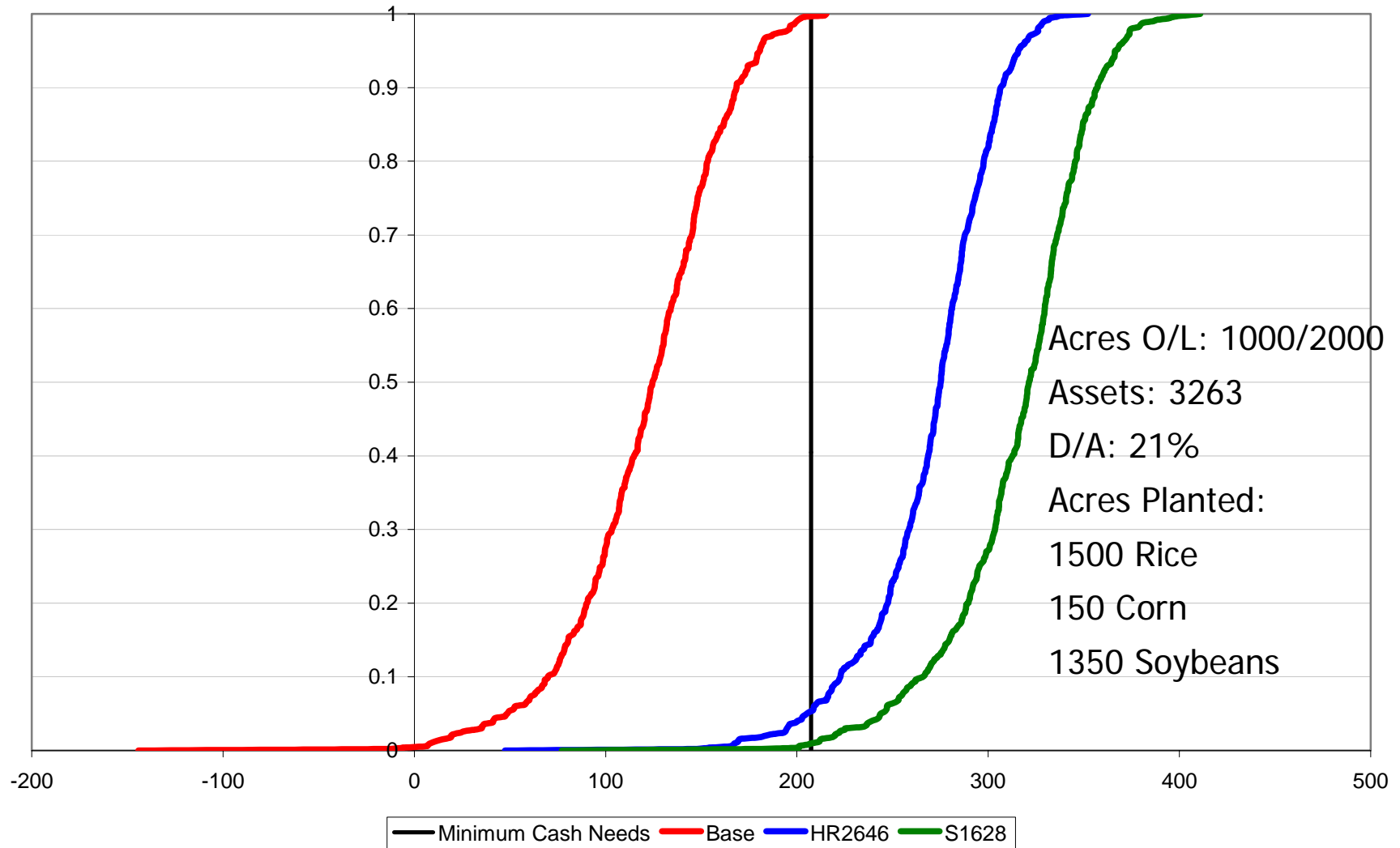
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the COW3000 Representative Wheat Farm



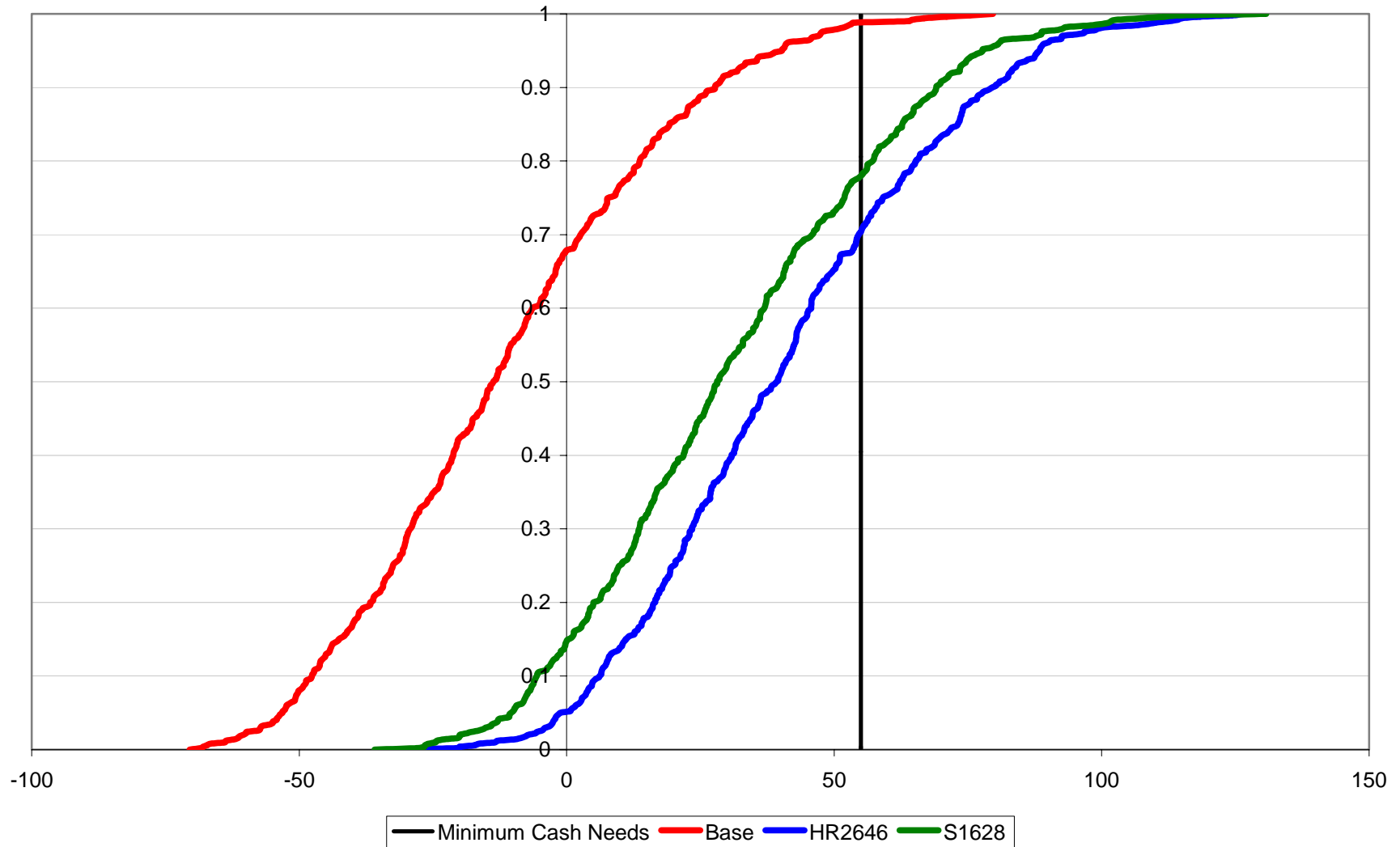
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the TXSP1682 Representative Cotton Farm



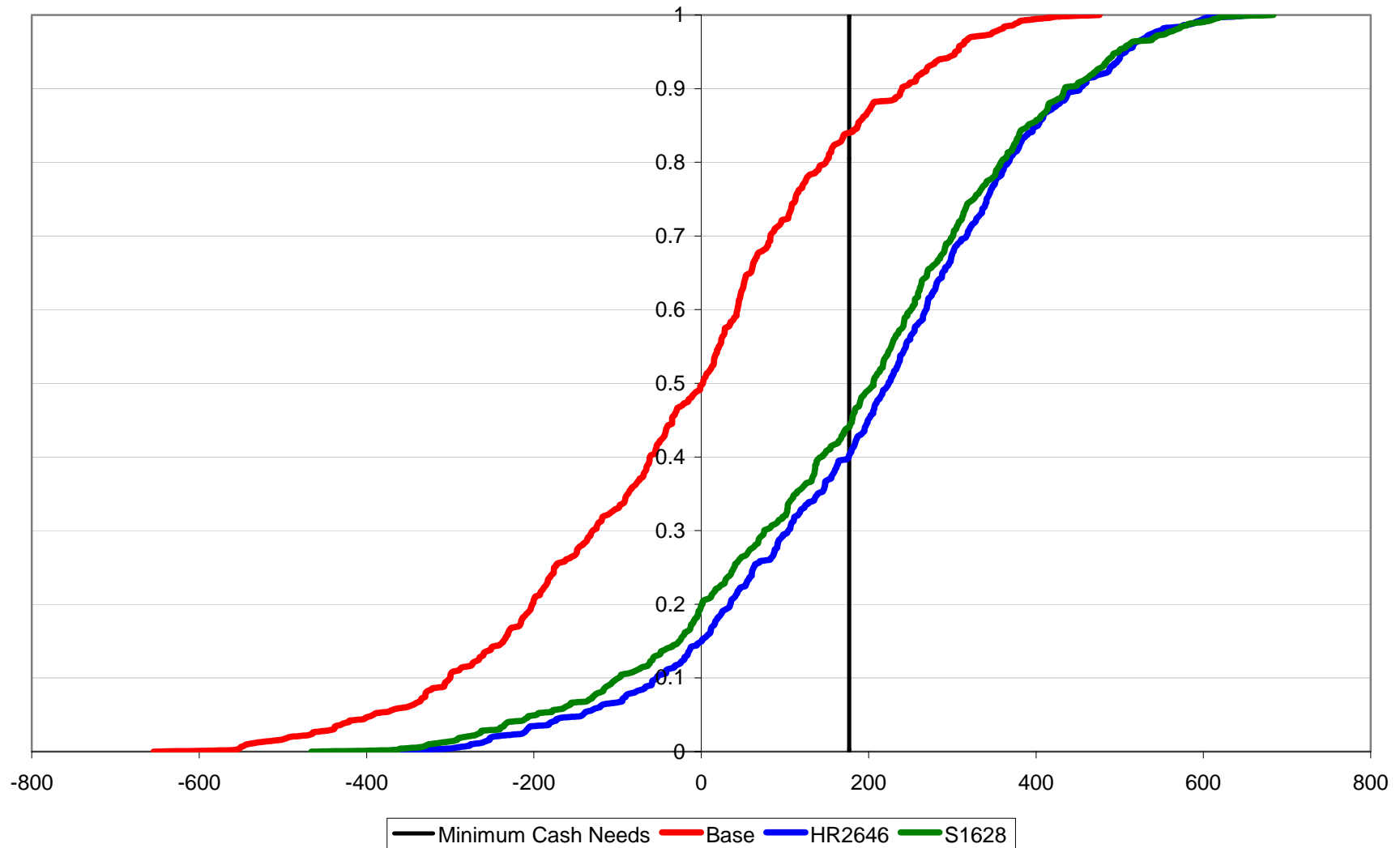
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the ARR3000 Representative Rice Farm



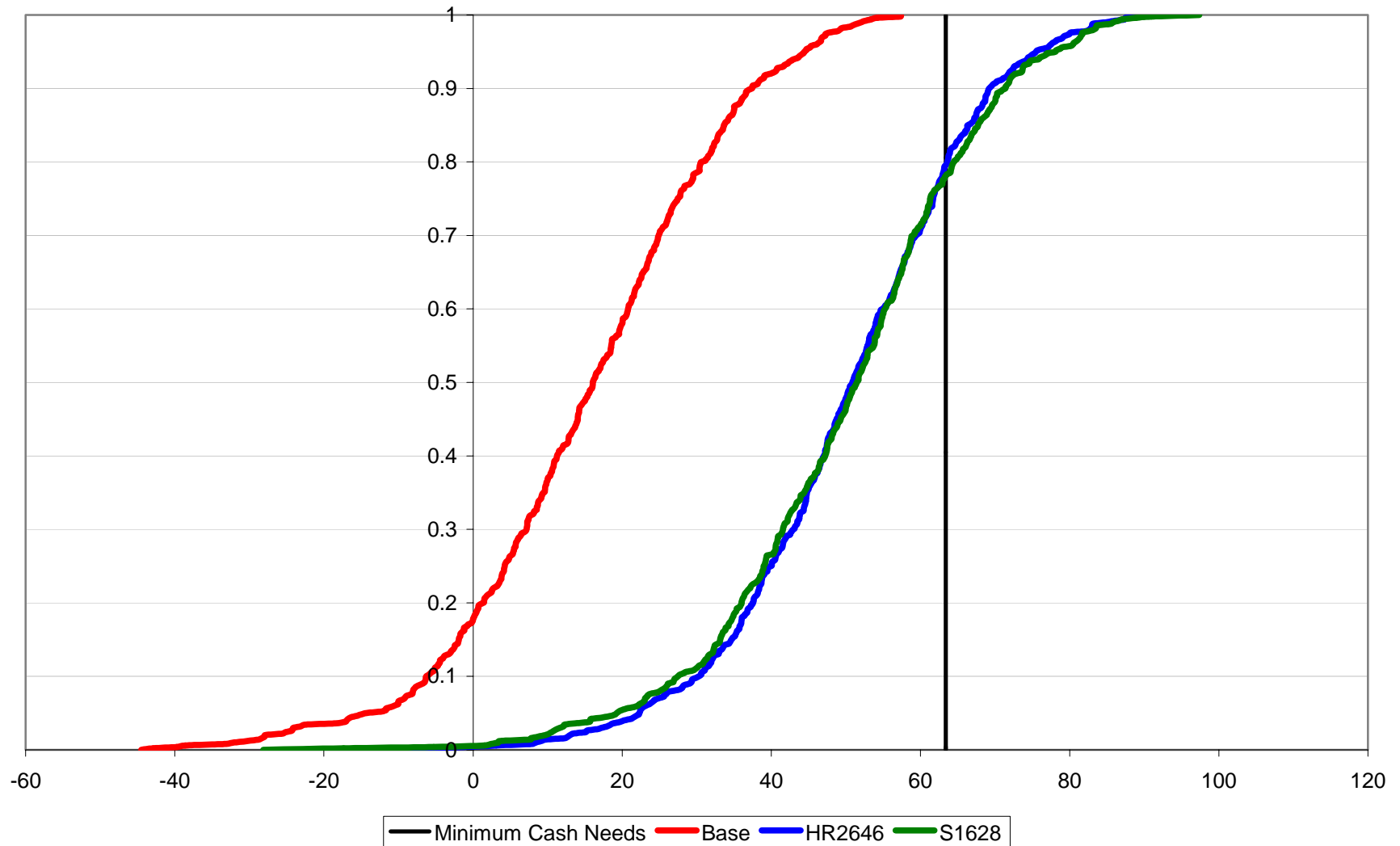
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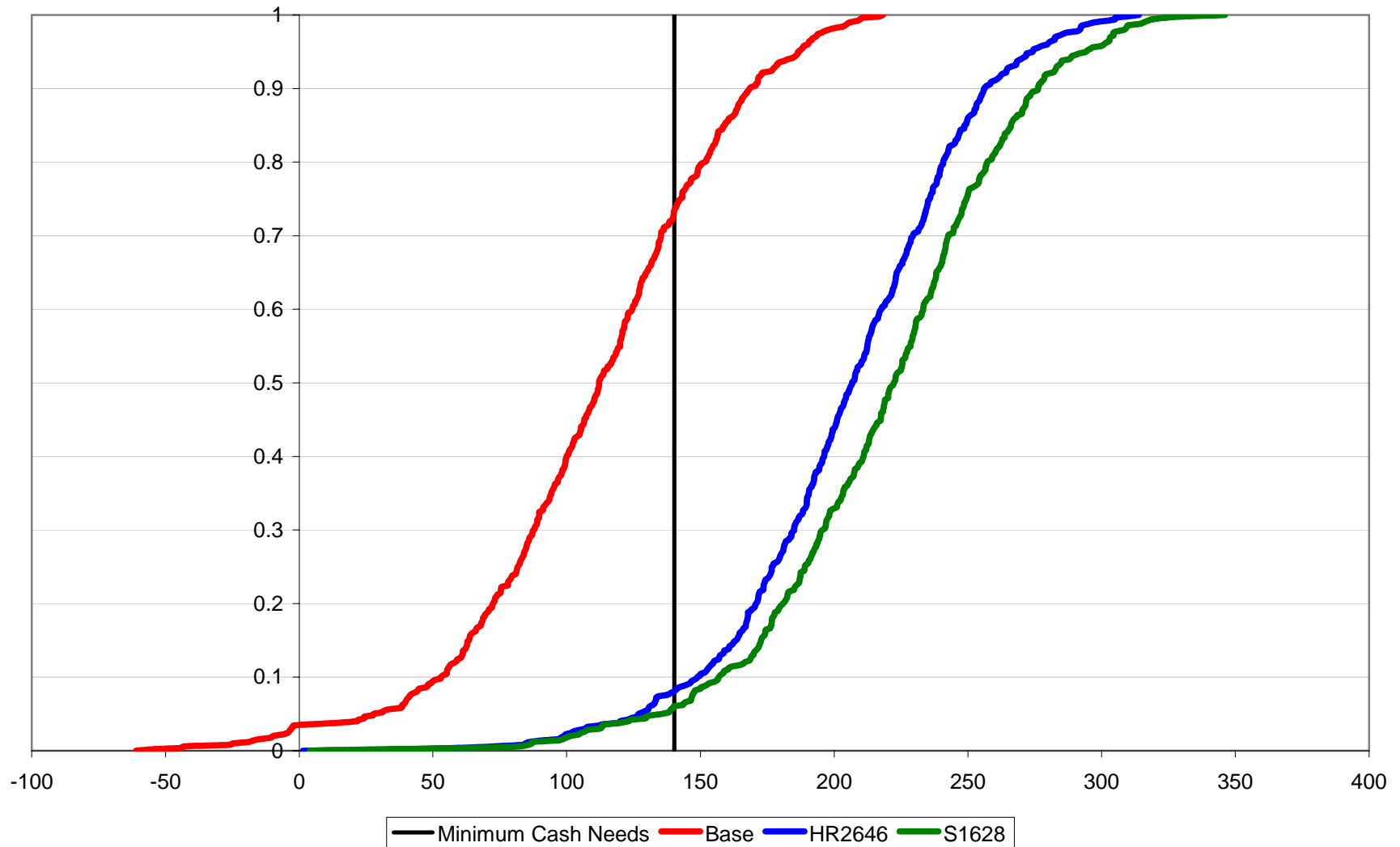
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the CAR2365 Representative Rice Farm



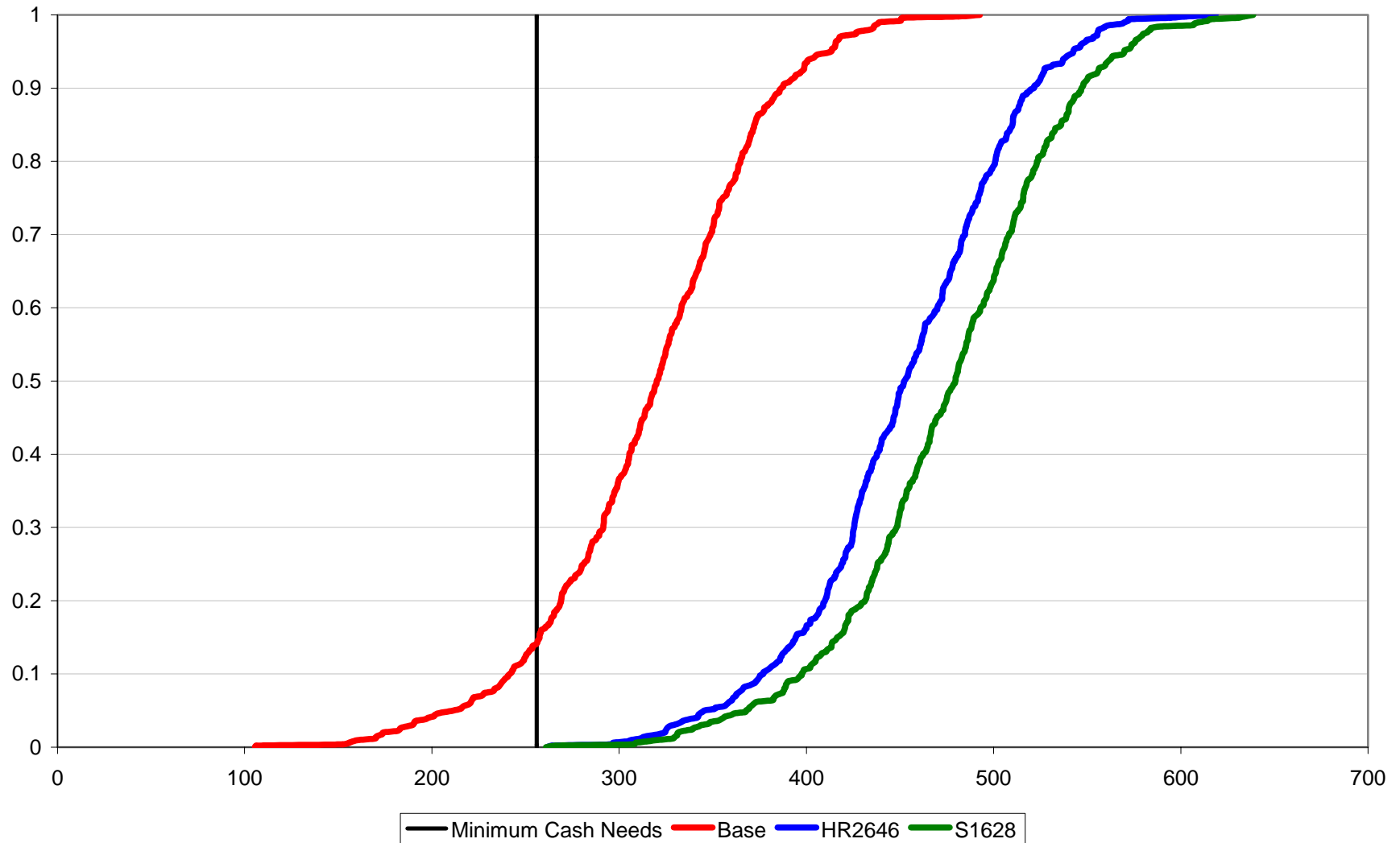
CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the TXR1553 Representative Rice Farm



CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the TXR3774 Representative Rice Farm



CDF of Average Annual Net Cash Farm Income, 2002-2006, Under Base, HR2646, and S1731 for the ARR3640 Representative Rice Farm



What the US House Ag Committee Heard

- Maintain flexibility
- Maintain export competitiveness
- Maintain WTO commitment
- Incorporate a better safety net that reduces the need for ad hoc assistance